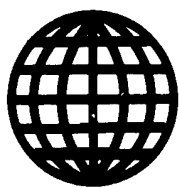
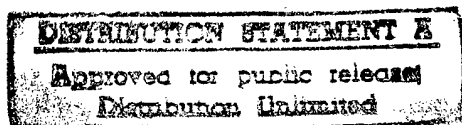


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16 JULY 1992



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NATIONAL AFFAIRS, POLICY

Current Economic Situation Analyzed

92CE0442A Beijing JINGJI CANKAO BAO in Chinese
19 Apr 92 p 1

[Article by reporter Bao Yueyang (0545 2588 7122):
"Will the 1992 Economy Fall Into the Same Old Pattern
of Overheating as It Has Done in the Past?"]

[Text] In the first quarter of 1992 accelerated growth occurred in the national economy. This includes an 18.2 percent increase in industrial production over the same period of 1991 (at the township level and above). This growth rate exceeds the 17.7 percent jump in industrial production that occurred at the township level and above in 1988. Capital investment in units owned by the people has increased 36.6 percent over the same period of 1991—a rate of growth which far exceeds the 17.53 percent growth rate recorded in 1988. When industry and investment grow this rapidly, naturally people will tend to make certain connections: Is the 1992 economy falling into the same old pattern of overheating it underwent in 1988? On 16 April the State Statistical Bureau called a press conference at which a foreign reporter perceptively raised this question.

State Statistical Bureau spokesperson Zhang Zhongji [4545 6988 1015] responded as follows: Although growth has been quite rapid in the first three months of 1992 and our GVIO and GNP targets may be surpassed this year, there are clear differences between the economic situation that prevailed in 1988 and that of 1992. In 1988 total social demand far outpaced supplies, commodity prices surged, people were nervous and unsettled, and a wave of panic buying swept the nation. This year, on the other hand, total social supplies are essentially even with total demand, the market is stable, people are demonstrating a steady consumer mentality, and commodity prices have not risen too much. The rapid economic growth occurring in 1992 is still within permissible objective limits and seems in the nature of a recovery. Consequently, we should not predict a recurrence of the overheated economic situation we experienced in 1988.

I have some explanatory material at hand which Zhang Zhongji did not explore at this press conference:

1) First look at the industrial growth rate: In 1988 industry grew 17.7 percent nationwide, including 20.8 percent growth at the village level and below. What needs to be explained is that this rapid growth rate was the culmination of sustained rapid growth from 1985 through 1987. From 1985-1988 the average GVIO (including the village level and below) grew 17.8 percent per year. The 18.2 percent growth rate we have seen in the first quarter of this year, on the other hand, has occurred following a relatively slow growth rate of around 10 percent per year from 1989-1991. The two are clearly dissimilar.

2) Next look at social demand: One of the primary characteristic of an overheated economy is that social demand surges. In terms of demand for investment, from 1985-1988 total capital investment mushroomed each year, with growth averaging 26.6 percent per year. In 1988 capital investment grew 18.5 percent (17.53 percent in units owned by the people). By contrast, in 1989, 1990, and 1991 capital investment measured 11 percent, 4.2 percent, and 16.9 percent, respectively. Although, when compared to the sluggish level of the past three years, in the first quarter of this year there has been quite a surge in capital investment in units owned by the people, this is in the nature of a recovery. As for consumer demand, from 1985-1988 the gross volume of retail commodity sales rose an average of 21.8 percent per year, including a 27.8 percent growth rate in 1988. In 1989, 1990, and 1991, on the other hand, the comparable growth rates were 8.9, 1.9, and 13.2 percent, respectively. In the first quarter of 1992 the gross volume of retail commodity sales has grown 16.3 percent—11.5 percent less than it did in 1988. The difference between total social supply and total social demand averaged 11.8 percent from 1985-1988, whereas it shrank to 8.7 percent in 1989, 7.65 percent in 1990, and 4 percent in 1991. It is well within the normal range.

3) Finally, look at commodity prices: In 1988 retail commodity prices skyrocketed nationwide, rising 18.5 percent. Moreover, this rate of inflation was the culmination of the two previous years of moderate to high inflation (7.3 percent and 8.5 percent). In the first quarter of this year retail price inflation has been running at 5 percent, which is actually 2.1 percent lower than in 1990 and 2.9 percent lower than in 1991.

However, although, as I have shown, 1988 and 1992 are fundamentally different, many economic experts believe that current economic activity still presents a potential threat of overheating. First of all, as industrial production has grown rapidly, sales of industrial goods have not kept pace. As of the end of March funds earmarked for finished goods had grown by 15.4 billion yuan over the end of 1991. Second, the competition among various localities for investment funds and projects has heated up. In the first quarter of 1992 investment in local projects grew faster than any other sphere of capital investment—it grew 52 percent over the same period of 1991, and 29.7 percent faster than investment in government projects. Moreover, construction starts are up across the nation, reconstruction and rashly launching new projects are also on the rise. Third, collective consumption is growing too fast—at 22.5 percent. This is 6.8 percent faster than residential consumption is growing. Fourth, from 1989-1991 banks extended 745.9 billion yuan in new credit, representing a growth rate of 19.2 percent per year. This has led to an increase in currency available for investment, which aggravates inflation pressures.

How can we prevent the threat of overheating and inflation from becoming a reality? The State Statistical Bureau feels that current macroeconomic regulation

must be based upon the principle of equalizing total social supply and total social demand. We must strive simultaneously for relatively rapid economic development, improvement in the product mix, and increased returns. We must strictly expand the scale of credit available and guide investment in the right directions. In addition, stabilizing agriculture and focus on the dynamics of price reform will also help us to avoid inflation.

JINGJI YANJIU Discusses Enterprise Bankruptcy

*HK2906102292 Beijing JINGJI YANJIU in Chinese
No 2, 20 Feb 92 pp 45-50*

[Article by Song Yangyan (1345 7402 8827) of the Chinese Academy of Social Sciences Economic Research Institute: "Enterprise Bankruptcy—The Only Way To Galvanize State-Owned Enterprises"]

[Text] In the commodity economy, where there is competition, there is victory and defeat. The interchange of rise and fall, and life and death between enterprises is the iron law that dominates enterprise behavior and determines the enterprises' destinies. In the Western world, if there had not been prosperity and decline, and rise and fall between enterprises, there would not have been such developed countries as there are today, and there would not have been such developed commodity economy to have adaptable to them. Since the socialist economy is a planned commodity economy, it should all the more consciously embody in the commodity economy's development the law that the better one wins out and the worse are to be eliminated through competition, it should make rational use of the bankruptcy mechanism, and effectively promote the national economy's development. The first "PRC Enterprise Bankruptcy Law for Trial Implementation" (herein after referred to as "Bankruptcy Law") was worked out by China's legislative body in 1986. As there appeared a temporary difficult situation in China's economy, this perfectly good "Bankruptcy Law" was pigeonholed. For a long time, some enterprises should have died out, but they did not. They have consumed a large amount of human, material, and financial resources; and there are more and more of this kind of enterprises, creating a situation of "bad old practices dying hard." Some enterprises should have been invigorated, but were not, thereby further putting the great majority of enterprises in a state of neither dying nor living, or being half dying and half living. Moreover, because China's commodity economy is undeveloped and the market mechanism is incomplete, there are all kinds of obstacles to bankruptcy behavior. Therefore, the enterprise bankruptcy theory is still unclear, and many problems remain to be explored. However, I believe the following are some major questions that need urgent replies.

One, what does enterprise bankruptcy mean?

By enterprise bankruptcy, we mean that the enterprise, as subject of commodity production and operation, suffers losses in the course of its activities, either due to the aging of equipment and technology, improper operation and management, because their products are unwanted, or because of bad quality and high cost. When such losses reach a "critical value," for instance, when capital cannot compensate for debts, or when an enterprise is insolvent, to clear up its debts or pay off its creditors, an enterprise is compelled to close down. This is called enterprise bankruptcy in the economic sense. What merits our attention here is that, as signs of bankruptcy, "capital cannot compensate for debts" and "insolvency" are two different concepts. "Capital cannot compensate for debts" refers to the fact that the total assets that the debtor actually owns are smaller than the total amount of debts and are insufficient to compensate for debts. "Insolvency" means that, although an enterprise has not yet reached the extent that its capital cannot compensate the debts, due to one reason or another, it does not have the cash to pay outstanding debts. In the West, some countries, for instance the United States, use the latter as the basis for bankruptcy, while in other countries, for instance the United Kingdom, use the former. There are also countries that use both standards as the basis for bankruptcy.

There is also a legal sense of enterprise bankruptcy. In the legal sense the enterprise is looked upon as an independent civil subject recognized by law, and when bankruptcy occurs, the enterprise is treated within the context of law, and bankruptcy is standardized. Karl Marx said: The legal standard is nothing other than an expression of the right of social behavior or phenomenon. Generally speaking, for an enterprise that has gone bankrupt, the law does not try to find in decision-making or find errors in the operator's managerial but deals with, according to law, the credits and debts of the enterprise, and its relation with the financial guarantor. There are generally two kinds of liabilities an enterprise has for debts. One is limited liabilities, that is, the enterprise is liable to pay its debts with all of its legal assets. If it goes beyond this limit, the enterprise is not liable whatsoever; another kind is unlimited liabilities, that is, an enterprise is liable to pay all outstanding debts. As to how and when to pay, it is all handled according to the law.

"The Bankruptcy Law's" enactment is the systematization of the legal sense of enterprise bankruptcy. The basic purpose of such a system is to protect the creditor's legal rights and interests. If there are over two creditors, they must be ensured their fair interest in the redemption of debts. To protect the debtor's rights and interests, if the debtor is not subject to unlimited liabilities, but to limited liabilities, he should repay debts by his legal properties. When his debts exceed his legal properties, the debtor is not required to repay the outstanding portion with properties beyond his legal properties. When the debtor has repaid his debts with legal properties, he has gotten rid of his status as a debtor, and the original debtor subject has vanished. He has thus

regained the right to be a free man economically, and can again engage in any kind of economic activities permitted by law.

The final and common expression of enterprise bankruptcy, whatever the causes or in whatever forms, is that an enterprise cannot compensate for its debts with its capital, and is compelled to close down due to insolvency, and clear up its debts according to the law. Therefore, enterprise bankruptcy in the economic sense is in unity with enterprise bankruptcy in the legal sense. The essential meaning of bankruptcy resides deeply in the above two intertwined senses. That is to say, the subject of the enterprise has finally vanished economically and legally.

Two, can enterprises owned by the whole people go bankrupt?

It is said that properties of enterprises owned by the whole people belong to all the people, and if it goes bankrupt because of poor operations and management, such properties can only be those owned by the whole people, or those of the state that represents the people's interests. Such an argument is obviously irrational, because bankruptcy is caused by the operator's operational behavior; and if the operator goes bankrupt, he has no properties that can go bankrupt. Thus, the conclusion is that enterprises owned by the whole people cannot go bankrupt. I believe that enterprises owned by the whole people do have properties that can go bankrupt, and they do have the problem of bankruptcy.

First, since enterprise bankruptcy is an objective law of enterprise economic activity independent of human will under the commodity economy, enterprises owned by the whole people likewise exist as and participate in market competition as commodity producers and operators that makes their own operational decisions and are responsible for their own profits and losses. The market law, including the law of the better winning out and the worse being eliminated through competition, will not climb the "doorstep" of ownership. For the purpose of becoming rich, whose property should or should not go bankrupt must be treated equally, without discrimination. Whatever property goes bankrupt, should go bankrupt. The question lies in the encounter of strength: Who is better, who is worse, and who will win out, who will be eliminated, will finally come out in the enterprise's vitality and performance. If enterprises owned by the whole people lack vitality, are poor in performance, suffer losses to a certain degree, and are unable to recover, there is the problem of facing bankruptcy. For example, if the registered capital of an enterprise owned by the whole people is 100 million yuan and its annual losses are 20 million yuan, in five years, the enterprise will become an empty shell. This is called bankruptcy.

Second, since bankruptcy is a legal system, the key to whether or not an enterprise can go bankrupt lies in whether or not an enterprise owned by the whole people carrying out commodity production and operational

activities is a corporation or not. If it is not a corporation, and if it is not given the right of taking the risk of bankruptcy, it has no right to undertake, in the case of poor management, the responsibility of repaying debts with other's investments or properties when bankrupt. However, among enterprises in China, there are enterprises that are not corporate, although there are very few of them. This kind of enterprise is essentially not truly a commodity producer and operator that can make decisions in operations and is responsible for its profits and losses. Most enterprises are economic entities organized according to laws of the state, and have acquired corporate qualifications through legal procedures, and are engaged in economic activities of organization and leadership, operation and management in accordance with legal artistry. Above criticism, such enterprises must undertake all economic and legal responsibilities for the consequences of their behavior. It is clearly laid down in Article 48 of the "PRC General Rules of Civil Law" (hereinafter referred to as "General Rules") adopted by the Fourth Session of the Sixth National People's Congress: "Corporations composed of enterprises owned by the whole people undertake civil responsibilities with properties authorized to them by the state for operation and management. That is to say, enterprises owned by the whole people do not have properties that can go bankrupt, that is not so, they do have properties that can go bankrupt. The properties are 'those authorized to it by the state for operation and management,' including fixed assets and floating assets. Also included are funds that the enterprises possess and investments or shares from other organizations or individuals. In short, enterprise bankruptcy involves all registered legal properties that belong to corporate enterprises and which corporate enterprises enjoy full power to control.

It is said that bankruptcy of an enterprise owned by the whole people is bankruptcy of properties of the whole people, and is unfavorable to the whole people. The point is: If an enterprise owned by the whole people does not go bankrupt, then isn't it unfavorable to the whole people to let losing enterprises continue losing year after year? Let us take the textile industry for example. It used to be a ready source of money, or a "tree that sheds coins when shaken" as a Chinese saying goes; now it turns out to be a "bitter cauliflower": the profit rate of funds and the profit and tax rate of funds keep going down yearly, and the entire industry even suffered losses in 1990. What are the causes that lead to such a situation? There could be many, but the major cause is that there is a large number of "marginal enterprises" in this trade. Some of these enterprises are technically backward, with old equipment, outdated technology, varieties of products that are very coarse and monotonous in color, and have thus become "sunset enterprises"; others were started blindly when the economy was overheated and became enterprises "born to excess." Instead of pushing them into the "ocean" of the market to compete like "big waves washing sand" in accordance with the requirement of the commodity economy's development, the state always believes that enterprises belong to the whole

people, and therefore, the state must not stand aside without "rescuing the dying." It can only "take from the fat to pad the lean," "rob the rich to aid the poor," and rescue these enterprises from dangers and difficulties with large amounts of endless financial subsidies. Consequently, these enterprises have become "bottomless pits that cannot be filled up, and large amounts of funds and materials have become steamed meat buns used for hitting dogs!" If things continue this way, what we are losing is not just material wealth owned by the whole people who smell of sweat and blood, but our ideals and hopes and China's socialism and living standards.

Of course, in actual life, there are certain difficulties in carrying out the bankruptcy system among enterprises owned by the whole people. Such difficulties mainly come from the limits to and weakening of enterprise behavior by enterprise debts. At present, enterprise debts mainly come from two aspects: one is bank loans. There are many enterprises in China suffering from serious losses but nevertheless continue to increase wages, bonuses, and improve the workers' welfare by relying on loans. Common sense says that under the commodity economy, it would be very difficult for such a situation to continue for even a single day. However, although "it is difficult to get by year after year, they still get along not too badly." The reason is that enterprises hang on by relying on soft limitation loans from banks. Banks are used to "eating from the same big meal pot," or else they themselves face the risk of bankruptcy. Therefore, they have a very dim consciousness that enterprise debts must be repaid. Furthermore, there is no necessary or feasible means of guarantee; they do not abide by the law when it is available. Thus enterprise loans are not paid back for a long time, and debts have ceased to exist, are avoided, or accumulated. More important, banks are still appendages of the state's executive organs, which are forced to deliver according to instructions without considering whether the enterprise has a fine prospect or not, or whether it has the ability for repayment. Second, mutual loans between enterprises. Now the situation of "triangle debts," "multiangle debts," and "debt chains" are very serious among enterprises, which have cultivated a bad habit of "not being worried about being heavily in debt," "do not feel itching for more fleas," and "want money, no; want my life, take it." Undoubtedly, this would affect the implementation of enterprise bankruptcy and its mechanism in enterprises owned by the whole people. But all these can be overcome in the course of deepening reform.

Three, is the implementation of the enterprise bankruptcy system a historical progress or historical retrogression?

It is said that the bankruptcy system can only be carried out under capitalism, and it is a historical retrogression to carry out an enterprise bankruptcy system under socialism. True, enterprise bankruptcy earliest occurred during the collapse of the feudal system and the regeneration of capitalism, and was afterwards further developed during the middle and recent periods of capitalism.

However, enterprise bankruptcy is not the product of the capitalist system, but an inevitable outcome of the growth of the commodity economy and the credit relation parallel to it. That some of the enterprises go bankrupt through competition is the reappearance of the operation mechanism of general commodity economy in the socialist commodity economy, and using it to serve the socialist planned commodity economy's growth is certainly not historical retrogression. It can only be historical progress. Such progress will be expressed concretely in the following aspects, and will vigorously promote the socialist planned commodity economy's perfection and growth.

First, enterprise bankruptcy strengthens the risk consciousness of enterprises, brings out their vitality, and steps up their motive force. Market is the "battlefield" of enterprises for competition of skills. No matter what the enterprise, if it wants to remain invincible in competition, it must pay close attention to market trends, adapt to market demands at any time, readjust product mix, increase colors and varieties, raise product quality, rationally organize production elements, improve operation and management, reduce costs, increase profits as much as possible, and promote the growth of labor productivity and social productive forces.

Second, enterprise bankruptcy can effectively determine and control enterprises' behavior goals. The setting up of the enterprise bankruptcy system forces every enterprise to attach great importance to the study of self-development strategies; appropriately increases accumulation; reduces unnecessary spending and nonproductive investment; strengthens in a planned way the capability of self-renovation, self-remoulding, and self-development; amplifies the potential for future development; and promotes its growth and flourishing.

Third, it is favorable for all members of an enterprise to unite into a community sharing honor and disgrace and being responsible in common for profits and losses. Mobilizing the initiative of the workers and staff has always been an important link in enterprise reform. How to solve this problem with satisfaction? It will not do simply to give money, and to give power first will not do either. Apart from power and benefits, it is necessary to have a "unemployment and employment" mechanism. It is necessary to step up the risk consciousness of all members of an enterprise, establish their status of being masters, enhance their sense of responsibility, mobilize their initiative, and give them a sense of being people in the same boat helping each other and making concerted efforts to operate and manage the enterprise with satisfaction. What is worth mentioning here is that in China's enterprises at present, there are indeed a large number of "masters" who only enjoy rights without doing their duties. Because of bad operation and management on the part of the "masters," some enterprises are already as precarious as a pile of eggs, yet the "masters" still get pay, bonuses, and material benefits and enjoy welfare all the same, disregarding the enterprise's destiny. When there is no money, they can borrow, and can even have

ever higher demands for bonuses, material benefits, and welfare. The setting up of the bankruptcy system and the bankruptcy mechanism's role can force the masters to be responsible for the life and death of their enterprise, and undertake the responsibility of enterprise bankruptcy and all consequences that may endanger every member of the enterprise.

Fourth, it can fundamentally promote the rational flow of labor forces, and overcome the difficulty in cutting down redundant staff in the enterprise. Since the Third Plenary Session of the 11th CPC Central Committee, to solve the problem of difficulty in employment which is piled up mountain-high, a number of measures have been taken, every possible way has been tried to digest and absorb social productive forces, and the employment problem has been eased. With the deepening of restructuring the economy and corresponding development in the economic situation, such a "low wages, high employment" structure is getting more and more unadaptable to reform's requirements. The goal of reform is to develop the productive forces, yet the traditional system of "low wages, high employment" seriously impedes the productive forces' development. There is only one way out, i.e. under the circumstance of raising labor productivity, open up extensively new ways for employment. How can we make the two compatible? Only by setting up the enterprise bankruptcy system. This is because with a bankruptcy system, on the one hand, all enterprises that enter the competition ring, to survive and seek development, must optimize their association of labor, streamline administration, and forsake all drawbacks that are in the way of optimizing association of labor; on the other hand, competition between enterprises, and competition for employment between laborers, would create under the circumstance of successive flow of the labor forces many new ways of employment, including new-born trades and branches for production, circulation, and various other services. It is thus not difficult to see that the reform of labor and wages may find from here a fundamental breakthrough, which will make the distribution and association of labor forces tend to be more rational, and wages will also become the labor force's price, and float up and down with changes in the labor forces' supply and demand.

Fifth, it is easy to promote the remoulding and improvement of the organizational structure within the enterprise. Now one of the major, old, difficult problems China's enterprises encounter in the course of shifting from extensive to intensive operation is that it is difficult to change the "all-capable nature" of old-type plants and factories. For instance, some machinery manufacturing plants have to manufacture by themselves up to 10,000 products, large and small, from machines down to cushions, gears, and ground screw nuts. Besides, enterprises have to take care of the livelihood of the workers and staff, of their children going to kindergarten and schools, and of their employment; take care of the workers' childbirth, old age, illness, and burial arrangements; and even take care of their eating and drinking, their going to

the toilet, and going to sleep. Some people said their factories and plants today have almost everything you can find in society, except a "crematory." Factories and plants are "big society" in reality as well as in name. The great majority of China's factory and plant directors are more like "mayors" or "governors" than "entrepreneurs." How can such heavily loaded enterprises, with so many burdens, slow and sluggish, march forward with light packs and improve their economic performance? Carrying out the enterprise bankruptcy system would force enterprises to think that if they want to seek their own survival and development, they must compel themselves to get rid of unnecessary burdens and improve their internal organizational structure, purify their own scope of functions on the basis of division of labor and specialization, and create their own necessary internal conditions for improving economic performance and efficiency.

Sixth, if seen from macroeconomics, the bankruptcy system is conducive to breaking with the separation of departments from regions, and with area blockades, and to promoting annexation and coalition between enterprises. In any commodity economy, the setting up and systematization of the enterprise bankruptcy system, if not viewed partially but as a whole, and if not viewed from a static but from a dynamic state, mark the further perfection of the commodity economy and various kinds of its operation mechanisms. From a certain sense, they also signify the final perfection of the operation process and the commodity economy's behavior. This is because there exists between competition and bankruptcy a cause and effect relation that admits no neglect: Competition leads to bankruptcy of a small number of enterprises, and enterprise bankruptcy in turn intensifies competition. Marx said, commodity producers recognize no authority other than that of competition. The might of competition knows no bounds. As an intrinsic motive force within the enterprise, competition can arouse quite extensively people's boundless enterprise mentality, and cultivate in people willpower and the spirit of bold innovation; as external pressure, competition forces every commodity producer, seizing every minute and second, to struggle every possible way. Competition is conducive to removing any obstacle obstructing the growth of the productive forces set up between enterprises, departments, and regions. It is also conducive to overcoming habits of "bureaucrat-industry" and "bureaucrat-commerce." It will promote the building up of a big nationwide unified market, and the annexation and coalition of enterprises. It will enable enterprises to evolve and progress toward an even higher organization form. For instance, to replace the operation contracting system with the leasing and stock systems. Undoubtedly, competition will help the national economy as a whole develop toward benign circulation.

Seventh, the legalization of enterprise bankruptcy—the introduction of the "Bankruptcy Law"—has become an important means of the state to administer the economy. Vertically, it is favorable to readjusting the relation

between the state and enterprises; fully mobilizing their initiative; ensuring the effective use, accumulation, and increments of the properties of the whole people; and preventing any encroachment of transgression from inside or outside. Horizontally, it is favorable to coordinating the relation between enterprises for equal competition, for the better to win out and the worse to be eliminated, for sacrificing the minority and helping the majority to achieve their goals, and being favorable to arousing the vigorous development of enterprises owned by the whole people. To ensure winning out of the better by elimination of the worse ones, to ensure prosperity by bankruptcy, and to change pressure into motive force—these are sources of strength of the bankruptcy system and its mechanism.

Four, has China at present acquired the prerequisites for carrying out the bankruptcy system?

"Lotus flowers, though beautiful, need the support of green leaves!" The bankruptcy system's implementation requires certain conditions. For instance, it is necessary for enterprises to have the decision-making power in operation, and it is obviously irrational for enterprises to undertake bankruptcy responsibilities if they are now given the decision-making power. Let us take another example, enterprises need to have a market environment which enables them to bring their role into play. Such a market should be a market system built by markets of commodities, funds, labor forces, technology, and information which are mutual infiltrated. Especially important is the market of funds made up of links of multi-channel circulation. If the source of funds relies only on loans from state banks, then the enterprises' ability to redeem debts will depend to a large extent on whether bank money is tight or easy. Whenever money is tight, it would be very hard for enterprises in trouble to find leeway or room for rescuing themselves, which often results spontaneously in coercive commercial and credit crisis among enterprises, and affects the normal operation of a large number of enterprises. Some of these enterprises might face the dangerous circumstances of suspending operation or closing down. Under such abnormal circumstances, it would be difficult for the bankruptcy mechanism to bring its role into play normally. It is also impossible to carry out the "Bankruptcy Law." For example, there are now large numbers of losing enterprises in China, yet factors that affect the losses of enterprises are very complicated, of which the price factor plays a very important role. As the price system and the price relations under the present stage are artificially twisted, many enterprises are placed under an unequal competition environment. Viewed from input, some enterprises operation and management level is low, and techniques and technology are backward, but as their material elements come from the state's average price supply, they easily gain fabulous profits; on the contrary, some enterprises' operation and management level is quite high, their techniques and technology are also advanced, but as they must purchase their material elements at high prices from the market, costs see big

increases, and reduced profits, or even losses or serious losses result. Now we take a further look at output. As there is a "double track system" in commodity selling prices, it would also lead to unevenness of hardship and happiness, not knowing whether to laugh or cry. Under such circumstances, it is very difficult to bring the bankruptcy mechanism into play, and also very difficult to carry out the "Bankruptcy Law." All these show that the bankruptcy system's implementation must go alongside the reforms of the financial and price systems, and must not be carried out in depth in isolation. However, going alongside does not mean forging ahead together, nor does it mean starting when all conditions are ripe. That kind of ideal state may never come. Things are always developing and changing. To carry out any reform plan, as long as we have acquired the basic prerequisites, we can "cross the river by groping for stones," summarizing experiences and improving ourselves while moving forward.

Under the present stage, has China acquired the prerequisites for carrying out the bankruptcy system? If we look at the matter calmly and objectively, we can say she has acquired the prerequisites on a preliminary basis.

First, in the past 10 years and more, based on the principle of separation of the two powers, China earnestly carried out various reforms in expanding the decision-making power in operation, i.e., centering around delegating power to lower levels and letting them retain a proportion of profits. Direct executive interference in enterprise production and operation activities by the government was greatly reduced, and enterprises enjoyed more decision-making power in production and operation, in personnel appointment, products distribution, labor and wages, and pricing. The "PRC Law for Industrial Enterprises Owned by the Whole People" was adopted by the National People's Congress in April 1988 (herein after referred to as the "Enterprise Law"), in which 13 articles were laid down concerning enterprises' decision-making power, which is legalized in detail. Recently, to invigorate enterprises, the central government emphasized by repeated injunctions that it was necessary to implement the "Enterprise Law," and earnestly respected the decision-making power of enterprises.

Second, the market and its system are being gradually developed and improved. In the consumer goods market, state monopoly for purchase and marketing of consumer goods has been basically abolished. Apart from a small number of consumer goods, such as grain food and oil stuffs, which are still purchased by contracts and supplied by vouchers, the remaining over 90 percent of consumer goods are primarily regulated by market (not including living quarters for the time being). The market of the means of production is gradually taking shape, and the scope of market regulation is gradually expanding. The products under unified distribution by the state according to plan have been reduced from 689 varieties in 1978 to over 20 varieties now. In the total

volume of sales of the means of production, the proportion of floating prices under the guidance of state plan and prices completely set by markets has exceeded 60 percent. Fixed labor markets and productive forces markets of a certain scale have been built in various large and medium cities across China. These markets are important places for placing people waiting for jobs, and for taking in the labor forces cast aside by enterprises that have gone bankrupt. They have created the necessary conditions for the flow of productive forces between enterprises and undertakings. A short-term market of funds has been set up on a preliminary basis. The accommodation of funds between banks and enterprises in cities all over China has reached almost 400 billion yuan. Stock exchanges have been set up in Guangzhou, Shanghai, and Shenzhen; and development of a long-term funds market has begun. Besides, technology and information markets are being explored, built, and developed.

Third, the price relation which has been twisted is developing toward a favorable direction in the course of readjustment and reform. The double track price system is disintegrating gradually, and prices of the majority of consumer goods have been released. For products under the double track price system, for instance iron and steel and a number of machinery and electrical products, the gap between the two tracks is narrowing gradually. The prices of some products are already very close, and those of others have merged tracks. Although China has not yet completely built up an open and rational price system with market supply and demand as the main basis under effective macroeconomic control by the state, yet after reform in recent years, especially after reform in the past two years, China has made a very big step toward this system.

Fourth, China's legal system is being improved and developed at an unprecedented rate. The setting up of the enterprise bankruptcy system is based on the legal system. It should be seen that China's laws, especially economic legislation and a number of economic laws and regulations which have a direct bearing on bankruptcy and closing down of enterprises, have mostly been implemented, and some are being enacted. Most important of all is that the "General Rules" have long been introduced, which is the most authoritative basis for the implementation of the "Bankruptcy Law." The "Enterprises Law" has further standardized enterprise behavior, which has thus provided a more reliable guarantee for the enterprise bankruptcy system's implementation.

Fifth, presently, there are no more serious obstacles to the implementation of the enterprise bankruptcy system than worries whether waiting-for employment and unemployment of a number of workers and staff after enterprise bankruptcy would become factors for social instability. Such worries are understandable, yet they are not quite necessary. If everything is fixed and not allowed to develop for the sake of stability, it might lead to greater instability. The correct way should be: Under

the general situation's basic stability, efforts should be made for society to make faster development in reform. As for the problems of waiting-for employment and unemployment of workers and staff after enterprise bankruptcy, they can be resolved by reforms in the social welfare and security system. On this matter, if we can achieve "dig canals first and drain off water afterwards," that is fine of course, but if that cannot be achieved on a large scale, then "dig canals while draining off water." Simultaneous development of "digging" and "draining" will also be all right. For bankruptcy of a small number of enterprises, they may even "drain off water first and dig canals afterwards" when necessary, to promote "digging" by "draining" to bring about the situation "where water flows, a canal is formed." In short, it is necessary to find ways to satisfactorily handle the relation of "forming a canal" and "draining off water," i.e. to solve the problem of surplus people. Regarding reforms in this respect, Shenzhen, Hainan Province, and Sichuan Province have already made quite big strides forward, and their experiences can be used for reference and be popularized.

QIUSHI on Enterprise Payroll Reform

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[Article by Qian Shiming (6929 0013 2494), Tong Yuanshi (4547 3293 6524): "Exploration for Deepening Enterprise Payroll Reform"]

[Text] Shanghai No. 2 Textile Machines Factory (hereinafter called No. 2 Textile Machines) is one of the large core enterprises in China's textile machine-building industry. The factory employs 4,200 workers, and it has three major products, namely, spinning frames, chemical fibre spinning machines, and dyeing machines. Since the factory started a series of reforms in 1984, it carried out reforms in the responsibility system for factory director, the comprehensive system of contracted responsibility for all staff, and the system of foreign trade according to its own accord, so that the enterprise was fully vitalized. The major turning point took place in 1988, when the factory was selected to carry out on a trial basis reform of "opening up the operations," to separate the flow of taxes from that of profits, to repay loans after taxation, to reduce the income tax rates, and to distribute payroll according to one's own accord. At present, it seems that the factory has made remarkable achievements in such reform, and has become one of the most lively and energetic large or medium state-run enterprises in Shanghai Municipality.

I.

Prior to 1988, the No. 2 Textile Machines' wage system was, like other enterprises, to link the total payroll to its economic performance. In the "linkage," the payroll and the base figure of economic performance, which were determined by the competent departments, as well as the floating ratio between the two, were far from reasonable;

and the problem of "whipping the fast ox" became a long-standing one, thereby hampering the initiative of cadres and workers, and constraining the development of productive forces.

Compared to the practice of "linking payroll to economic performance," the "distribution of payroll according to one's own accord," which is being carried out on a trial basis, has not only solved the problem of "whipping the fast ox," but also made breakthroughs in the areas of self-constraint and development. Its major approach was:

(1) The enterprise no longer adopted the practice of "linking payroll to economic performance." Rather, it determined on its own accord the growth rate of workers' payroll according to its production development situation and the improvement of economic performance. Correspondingly, the enterprise proposed two rigid self-constraint indexes: The enterprise's total payroll growth must be lower than the growth rate of profits and tax delivery, and the workers' growth in average actual payroll must be lower than the growth rate in the whole staff's labor productivity (hereinafter called the "two lowers").

(2) That portion of profits retained by the enterprise was only divided into the production development fund, the reserve fund, and the workers' welfare fund; and no other bonus funds were established. In the past, when "linking payroll to economic performance," the workers' bonuses were paid out of the enterprise's retained profits. Now, the bonuses are paid out of the costs.

(3) When "linking payroll to economic performance," the payroll and bonuses were paid out of two different sources. The readjustment and control of bonus distribution was realized through a special tax on bonuses. After the "distribution of payroll on one's own accord" was adopted, both the bonuses and payroll were paid out of the same source; so that the tax on bonuses was correspondingly abolished, and only the readjustment tax on wages was levied. At the same time, the readjustment tax on such portion of monthly wages earned by individual workers exceeding 420 yuan was withheld and delivered by the enterprise according to state regulations.

(4) "Nonbudgetary" income was transferred into "budgetary" income, that is, items such as "labor allowance" and "peasant workers' payroll," which were originally not included in the labor payroll report, were counted as part of the total payroll; this approach was used to eliminate any other form of payment of "nonbudgetary" individual income.

(5) The enterprise determined on its own accord its payroll system, its form of distribution, and the distributable payroll; thereby appropriately implementing the principle of distribution according to work.

II.

The results of "distribution of payroll according to its own accord" achieved in recent years by No. 2 Textile Machines were remarkable, and have proved that this was a successful reform and that it has a strong vitality.

(1) The mechanism of economic forces, which focused on economic performance, was strengthened, so that the economic results of enterprises were continuously, and steadily improved.

When the enterprise "linked payroll to economic performance," it took its actual economic performance of a particular year as the basis of assessment; and there could be growth in the payroll only when the economic performance was better than the growth in base figure. The better was the economic performance, the larger was the base figure; so that it was more difficult to further increase the payroll. Therefore, the enterprise would face the problem of "whipping the fast ox." In addition, as the competent departments always checked the annual increase in the payroll, that portion of funds exceeding the total amount was turned into savings and became "cakes in the shopping window" so that one could only see them but could not consume them. Since the growth in the workers' income was not closely linked to the enterprise's economic performance, this did not fully mobilize the workers' enthusiasm work hard and make joint efforts to improve economic performance.

After it adopted the "distribution of payroll according to one's own accord," the relativity between increase in workers' income and the enterprise's economic performance was further enhanced. In forming the total payroll, the enterprise had to depend on itself to "bake the cakes," and might take its share, so that the decision-making power was completely in the hands of the enterprise, which reflected both motive force and risks, and encouraged every worker of the enterprise to become more concerned about the enterprise's production, operations, and economic performance. In the previous campaign to "increase production and practice economy and increase revenue and reduce expenditures," the workers did not care about that because they thought that the campaign was a matter for the leadership and cadres. They now see those areas as their own affairs and have really developed the thinking of jointly assuming economic responsibilities and jointly sharing the economic achievements, with the enterprise's operators. The adoption of distribution of payroll according to one's own accord helped solve the problem of "whipping the fast ox," so that everyone in the factory was of one mind to safeguard a continuous increase in labor productivity—the source of their payroll—and that the factory organized the work force to tackle two key points, namely technological transformation and development of new products. In the three years after the adoption of "distribution of payroll according to one's own accord," the amount of capital invested in technological transformation was equivalent to 2.6 times that of three years

before; and as many as over 20 new products at international advanced level of the mid-1980's were developed, so that vast domestic and overseas markets were developed. The economic performance was sharply improved, as did the workers' payroll, fully illustrating the proper vitality of large and medium state-owned enterprises. According to statistics, compared to 1987, the 1990 gross industrial output value of No. 2 Textile Machines grew at an average annual rate of 8.31 percent; its realized profits grew at an average annual rate of 19.9 percent; its profits and tax delivery grew at an average annual rate of 23.61 percent; its export value grew at an average annual rate of 57.54 percent; its labor productivity of all staff grew at an average annual rate of 9.25 percent; and the actual payroll of its workers grew at an average annual rate of 6.16 percent.

(2) The implementation of distribution of payroll according to one's own accord promoted reforms in the enterprise's internal distribution system.

Prior to the adoption of "distribution of payroll according to one's own accord," though the enterprise exercised in name the decision-making power in internal distribution, the enterprise's distributable payroll to be was still controlled through administrative means by the upper departments. It was usually the case that the actual payroll to be distributed was not known until the second half of that year; and the specific distribution policies remained changed throughout the years, so that the enterprise was always in a passive position of waiting for policies, requesting a prompt decision, and fighting for quotas. The wage distribution fund was often left intact in the early days of a year, but was quickly consumed by the end of that year, so that it was really difficult to distribute according to work. Following the adoption of "distribution of payroll according to one's own accord," the enterprise might project at the beginning of a year, and worked out annual plans, according to the situation of production and operations of that year, in the areas of internal distribution and payroll, and corresponding labor and insurance reforms; and might make arrangements for production and operations to maximize the payroll's input-output efficiency.

After implementing the "distribution of payroll according to one's own accord," No. 2 Textile Machines fully utilized the decision-making power of internal distribution by depending on the guaranteed amount of the planned increase in payroll, and implemented a series of reforms "at its own cost." Reforms were carried out on two levels. The first was to reform the basic payroll system and find an accurate basis for paying wages. They replaced the unitary wage system for technical grades (in eight grades) with payroll formed by multiple constituents, which mainly consisted of payroll in respect of the posts and level of technical skills, and included allowances, subsidies, and bonuses. A comprehensive assessment was conducted in the areas of labor skills, labor intensity, work responsibility, and working conditions; to determine the workers' payroll according to their posts and technical skills. Payroll based on posts

were divided into 18 types, in which each was further divided into five steps; payroll based on technical skills were divided into 12 grades, in which each was further divided into three steps. The second level was to pay the actual payroll flexibly; and on the basis of assessment, to widen the difference of payroll being distributed. Through the implementation of different economic responsibility systems in branch factories, sections, and offices, the enterprise widened level by level the bonus fund, as well as the amount of distribution in the branch factories, sections, and offices, by carrying out various measures, such as contracting comprehensively, linking bonuses to profits, and giving bonuses for overfulfilled output. Also, such branch factories, sections, and offices further widened the difference in distribution among individual workers on the basis of assessing the actual amount of labor contributed by everyone, as they made each individual worker contribute a portion or even all of his wages to a bonus pool to calculate rewards through various fixed rate wage systems, such as the piece-rate and point systems. At the same time, they set up 11 items of special management, covering quality, safety, technological transformation, energy conservation, and promotion of work teams, to closely integrate bonus distribution with the work of speeding up the pace of transformation and realizing the goal of increasing production and practicing economy and increasing revenue and reducing expenditures.

This reform in payroll by No. 2 Textile Machines, which was carried out on its own accord and "at its own cost," invigorated at microlevel the internal distribution. (1) The establishment of a mechanism bringing about normal growth in workers' payroll had taken shape. Workers might increase their payroll through different channels, such as promotion by improving their skills, change of payroll grade by changing their posts, payment of floating bonuses, and increase in the wage scale and standard rates of allowances. The payroll operation was always in a dynamic state. (2) The composition of payroll was optimized, the proportion of bonuses was dropped, and the proportion of payroll was correspondingly increased. (3) The contradiction that the wage scale did not correspond to the level of technical skills was preliminarily mitigated. (4) The relations of internal distribution in the enterprise were reasonably readjusted, which reflected the difference in labor requirements among different posts, so that the wage distribution favored those who worked on the front-line production posts; harsh, dirty, tiresome, and dangerous posts; and posts requiring key technical skills, thereby developing a reasonable flow of personnel in the enterprise. (5) The relations between payroll and prices were initially rationalized; and the enterprise might set up its price subsidies, in addition to the ones prescribed by the state, thereby realizing an appropriate separation of flows between "permanent payroll" and "price subsidies," and creating better conditions for distribution according to work. (6) The enterprise developed a self-constraint mechanism in wage distribution, which was favorable to

correctly handling the relations of interests among the state, enterprises, and individual workers.

The "linkage between payroll and economic performance" changed the enterprise's mechanism of increasing the aggregate payroll, which was no doubt a major breakthrough in reforming the enterprise's payroll. Nevertheless, in the "linkage between payroll and economic performance," those two bases and that ratio were approved by the competent government departments; and the subject of such control was the government. After No. 2 Textile Machines implemented the "distribution of payroll according to one's own accord," it might determine on its own accord its payroll growth rate according to its production development and plans of improving economic performance, while taking the "two lowers" as the constraining condition. Hence, the subject of such control was switched from the government to the enterprise, which thus brought about an invisible binding force to urge the enterprise to consciously safeguard that the profit and tax delivery growth was higher than that in enterprise's total payroll; safeguard that the enterprise would have sufficient accumulated funds to meet requirements in pursuing production development and technology progress; and safeguard that the growth in labor productivity of all staff was higher than that in the average actual payroll of workers, thereby taking into consideration the interests of the state, enterprises, and individual workers. Over the past three years, the ratio of the enterprise's accumulated amount of profits and tax delivery to the growth in its total payroll was 1:0.81, and the ratio of labor productivity of all staff to the growth in average actual payroll was 1:0.84.

(3) The mechanism of the state's macroreadjustment of the enterprise's aggregate payroll was optimized so that it was favorable to proportionally increasing the workers' payroll in a planned way.

The key to effectively preventing the total payroll from being out of control is to embody the state's macroreadjustment in the enterprise's self-constraint. It was no doubt that the distribution of payroll by No. 2 Textile Machines according to its own accord paved the way for optimizing the macroreadjustment. At the same time, to abolish the payment of bonuses out of the retained profits helped eliminate the phenomenon that the bonus fund squeezed in varying degrees the production development fund, which was common under the practice of "linking payroll to economic performance"; helped transfer the "nonbudgetary" income into the total payroll account, thereby improving the transparency of revenue distribution, eliminating the "leakage through nonbudgetary items," plugging a major loophole in the macroreadjustment, and helped substitute taxes on bonuses with the readjustment tax on wages, strengthening the collection and management work concerning the readjustment tax, and strengthening taxation's macroreadjustment function.

III.

The "distribution of payroll according to one's own accord" by No. 2 Textile Machines was an experimental practice, which provided much useful experience in deepening reforms in the enterprise's payroll, as well as revealing some issues worth being further discussed and studied.

First, in the "distribution of payroll according to one's own accord," should we take reforms in the contracting system as the prerequisite for separating the flow of taxes from that of profits? In the No. 2 Textile Machines' approach, the "distribution of payroll according to one's own accord" was carried out on the basis of separating the flow of taxes from that of profits, and repaying loans after taxation. We hold that although the separation of flow of taxes from that of profits is the direction for reforming the distribution relations between the state and enterprises, an necessary prerequisite for carrying out the distribution of payroll according to one's own accord is autonomous operations by enterprises. Only when we allow enterprises to freely operate on their own accord can we require them to be responsible for their profits and losses in revenue distribution; and can we make enterprises give play to their subjective initiative, to increase the payroll by working hard rather than by bargaining with, or relying on, the guarantee of the government. Theoretically speaking, provided that enterprises are allowed to operate on their own accord, enterprises that adopt the contracting system may also carry out distribution according to their own accord. Nevertheless, it was indicated by the No. 2 Textile Machines' experience that we may handle in a better way the relations of interests among the state, enterprises, and workers by simultaneously carrying out the separation of flow of taxes from that of profits and the distribution according to one's own accord. Therefore, to substitute the contracting system with the separation of flow of taxes from that of profits is a condition that we should strive to realize.

Second, within the framework of "two lowers," should we work out an "extent" for allocating the total payroll? Some people held that subjectiveness and arbitrariness were inevitable because the "two lower" framework was too vague and the level of growth in payroll was not fixed. Other people held that in the coming years, the pace of reforms might become quicker and that reforms, such as price reform, reform in the social security system, and so forth, would involve the readjustment of interests among the three parties, and would be affected by many uncertain factors. Thus, it would become meaningless if we set an excessively wide range for the ratio to fluctuate; and it would become useless, and the advantage of distribution according to one's own accord would be offset, if we set an extremely narrow range. It seems that we may come to a correct conclusion on whether we should work out an "extent" for distributing the payroll according to one's own accord only when we have carried it out in, and compared the results of, experimental units.

Third, should we use profits to make up for losses, or maintain no reserves? In No. 2 Textile Machines, the payroll allocated for a particular year was paid out in that year, so that no reserve was maintained. The factory leadership held that payroll's rigidity might be lessened only when it avoided using profits to make up for losses, that the workers' interests were really linked to the fluctuation of the enterprise's economic performance, and that all staff of the factory really shared woe and weal and the same destiny. If a payroll reserve fund was set up, the amount of payroll would neither drop nor rise even when it was necessary to drop or rise; and this was equivalent to the practice of guaranteeing bumper harvests despite drought or floods, so that it would be difficult to develop the necessary feeling of anxiety or the sense of encountering crisis. Still, some comrades held that enterprises' economic performance fluctuated regularly in a spiral manner; and that this not only depended on the business management of the enterprise in question, and its workers' labor contributions, but was also affected by the state's policies and market factors. If the decline in economic performance was mainly caused by objective factors, it was unfair to ask the workers to be "responsible for losses." Therefore, it was necessary to increase less payroll during those years that yielded "bumper harvest," so as to make a little reserve.

The specific contents of an enterprise's economic performance are also worth studying. At present, people hold different viewpoints toward economic performance. Some refer to this as the amount of profits and taxes realized by the enterprise, some refer to the amount of profits and tax delivery, some only refer to the amount of profits but not the taxes. In addition, an enterprise's economic performance is not completely determined by its operation or management skills, but is often determined by external conditions. Therefore, we need to further study the contents of enterprises' economic performance to find a specific method for appropriately judging the economic performance of enterprises of the same type.

Fourth, what are the conditions and breakthrough points that we need to make to include bonuses into the cost? According to the No. 2 Textile Machines experiences, to include bonuses in the cost was favorable to practicing financial accounting in the enterprise; making its cost and profits tally better with the facts; and exercising macro control over the aggregate payroll. However, the inclusion of bonuses in the cost pushes up cost, and offsets profits. Therefore, we must clarify two conditions in the course of implementation: First, one must not arbitrarily hike prices to compensate for the increase in cost caused by changing the payment channel. Second, one must not cut the amount of contracted revenue for the state to compensate for the reduction in profits caused by changing the payment channel. The reduction of profits caused by an increase in the cost may be, and should be, made up by retaining less profits. This is because the bonus fund is no longer paid out of the retained profits.

Of course, the inclusion of bonuses into the cost is not purely a technical process in terms of finance, and it touches on two substantial problems: First, we need to carefully study the great difference among enterprises in the payment of bonuses, the way that they include the bonuses into the cost, and the actual effects on the cost and profits. Second, in paying bonuses out of the retained profits, an enterprise has to pay 25 percent of the profits for the energy and transportation construction fund and the budget readjustment fund. After the bonuses are included in the cost, the state will receive less revenue. This thus concerns the tolerance of the state's fiscal affairs. Now, it seems that to include bonuses in the cost is feasible, but we should create conditions, and make gradual progress in summing up our experience when probing and solving problems.

Fifth, in eliminating "nonbudgetary" income, it is necessary to provide a guarantee through mechanisms. The "nonbudgetary" income distorts the statistic figures on payroll. It was the major loophole that caused the consumption fund to run out of control, and made an impact of countering and undermining reforms in the payroll system. No. 2 Textile Machines' approach, which included the "nonbudgetary" income in the total payroll, was a good way to eliminate the "nonbudgetary" income. Nonetheless, this method of "opening up proper channels and stopping improper ones" adopted by No. 2 Textile Machines was guaranteed by the outstanding quality of enterprise's leading cadres, which was basically a form of "ruling by persons." If the leading groups of some enterprises do not possess such qualities when everyone is actively popularizing this approach, it is possible that "nonbudgetary" income will emerge again. Therefore, we need to deepen our reform and establish a macroreadjustment mechanism as well as a self-constraint mechanism that match the planned commodity economy.

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[Article by He Zuoxiu (0149 4373 1652): "Great Significance of 'Science and Technology as Primary Productive Forces' Theory"]

[Text] **Advancing Theory of "Science and Technology as Primary Productive Forces"**

"Science and technology as productive forces" is an important and fundamental Marxist point of view. "Science and technology as primary productive forces" is a new generalization made by Comrade Deng Xiaoping after summarizing the new trends and experiences of economic development in the contemporary world. It has enriched and developed Marxist theories on science and technology and the productive forces, and is of important and far reaching significance in studying and analyzing the present-day world issues, and to guiding China's socialist modernization.

The idea of "science and technology as productive forces" comes from Karl Marx's *Das Kapital*, *Economic Manuscripts*, and other works. For many years past, this extremely important idea has not been fully expounded and developed in the study of Marxism. In some theoretical works, natural science is included in the scope of social ideology and superstructure. During the 10 years of turmoil, to enlarge the scope of "strengthening all-round dictatorship," the "Gang of Four" constantly declared natural science, or science and technology, as being a superstructure and causing a great deal of confusion in theory and practice.

In 1975, to make things clear, some leading comrades from scientific and technological circles, scientific and technological workers, and theoretical workers, with the support of Comrade Deng Xiaoping and based on the Marxist theory on productive forces, wrote the sentence that "science and technology likewise are productive forces" in drafting the "Outline of Report on Work of the Chinese Academy of Sciences." It made people feel fresh and new during that period of time. In 1978, in his "Speech at the National Science Conference Opening Ceremony," Comrade Deng Xiaoping quoted Marx's words that "science is also included in the productive forces," pointing out that "science and technology as productive forces has always been a Marxist point of view." In 1988, Comrade Deng Xiaoping again pointed out in one of his talks: "It is absolutely correct for Marx to say science and technology are productive forces, and judging from the present situation that way of putting it may not be enough I am afraid. It should be primary productive forces." (*Comrade Deng Xiaoping on Education*, People's Education Publishing House, 1990 Edition, p 174) In 1989, Comrade Deng Xiaoping reiterated that science and technology are primary productive forces; science is something amazing, and importance should be attached to it, and it may be science that finally solves the problem. ("Promoting Scientific and Technological Progress Is the Historical Task of the Whole Party and the Whole People" by Comrade Jiang Zemin) The theory that "science and technology are primary productive forces" was thus put forward for the first time in the history of the development of Marxism.

In the study of Marxism, science has long been listed as social ideology. It is now emphasized that science and technology are productive forces and primary productive forces at that. Is such a new formulation a scientific Marxist thesis? Is it a fundamental point of view that Marxism should uphold and develop? This is one of the controversial hot topics in current theoretical study and practical work.

"Science and Technology Are Productive Forces" Has Always Been a Marxist Viewpoint; "Science and Technology Are Primary Productive Forces" Is Also a Marxist Point of View

Many works by Marx, including his officially published works and manuscripts, are full of direct or indirect clear-cut expositions about the idea that "science and

technology are productive forces." For example, in the first volume of his representative work *Das Kapital*, Marx believed that: "Labor productive forces are determined by many situations, including the average proficiency of the workers, the level of scientific development and the extent of its application in technology, the social integration of the production process, the scale and efficiency of the means of production, and natural conditions." (*Collected Works of Marx and Engels*, Vol 23, p 53) This is Marx's clear-cut narration which includes science and technology in the scope of productive forces. Indirect exposition concerning this idea can be found in many places in the first volume of *Das Kapital*. For instance, "large industries merge huge natural forces and natural science into the course of production" (ibid, p 424); "the principle of large industries... is to break down each production process into its various constituent factors, thus creating a completely new branch of science and technology. The social production process... is broken down into conscious, planned, and systematically classified applications of natural science to achieve expected useful results" (ibid, p 533). There are many other expositions concerning science and technology as productive forces scattered throughout Marx's works and I am not going to quote them individually. In short, science and technology as productive forces has always been a Marxist point of view.

The further development of "science and technology are productive forces" is the view that "science and technology are primary productive forces." "Primary" means the most important or playing a decisive role. Many expositions in this respect can also be found in Marx's relevant works. For example: "Productive forces develop continuously with constant scientific and technological progress" (ibid, p 664); "Such development of productive forces, in the final analysis, always... comes from intellectual labor, especially from the development of natural science." (*Collected Works of Marx and Engels*, Vol 25, p 97)

Marx also pointed out clearly the decisive role of science and technology. For instance: "The principle of mechanical production is to break down the production process into its various component stages and the application of dynamics, chemistry, etc. In short, it is the application of natural science to solve problems arising therefrom. Such a principle plays a decisive role everywhere" (*Collected Works of Marx and Engels* Vol 23, p 505); "With the development of large industries, the creation of actual wealth is not so much determined by labor time and the amount of labor consumed..., on the contrary, it is determined by the general level of scientific and technological progress, or by the application of science in production." (*Collected Works of Marx and Engels* Vol 46, p 217).

It should be said that science and technology are primary productive forces has not yet been clearly put forward in these basic ideas but they contain many prerequisites of the scientific thesis that "science and technology are primary productive forces."

The Theory That "Science and Technology Are Primary Productive Forces" Is a New Generalization of the Law of Development of Contemporary Social Productive Forces Under New Historical Conditions

The theory that "science and technology are primary productive forces, put forward by Comrade Deng Xiaoping is not just a simple reaffirmation or repetition of the theories by Marx, Engels, and Lenin on productive forces, but a further study and exploration of the new law governing the development of productive forces under the new historical conditions. If science and technology were not yet primary productive forces during the slavery society and the medieval feudal society, they had already displayed unprecedented vitality in the 18th and 19th centuries and their primary role has been more and more clearly displayed in pushing forward the development of the productive forces in the 20th century, especially since World War II. This is first because a number of new features have emerged in science and technology and their role in social life in the 20th century.

In the expositions by Comrade Deng Xiaoping, apart from his pointing out, as early as in 1978, that the development of the productive forces and the increase in labor productivity in the present times "depends mainly on scientific and technological forces" (*Selected Works of Deng Xiaoping (1975-1982)* p 84), some other ideas which merit our attention are as follows:

1. A new mechanism or pattern has emerged in the role of 20th century science and technology in pushing forward industrial and agricultural production. If scientific and technological progress was promoted mainly by the development pattern of "production to technology to science" in the 18th and the 19th centuries, then in the 20th century, it is mainly by the development pattern of "science to technology to production." That is, science and technology determine production, new markets, and new social demands, pushing forward the development of production. If the invention of the steam engines in the 18th century was a major improvement (essentially an improvement) made on the basis of absorbing the skills of predecessors, the emergence of motors, electric lights, telephones, radio, and television, etc. in the 19th and 20th centuries are the results of hard work and great devotion in laboratories by a large number of scientists such as Michael Faraday, James Maxwell, and others. As Comrade Deng Xiaoping pointed out: "Modern science opens the way for the improvement of production techniques and determines the direction of their development. Many new instruments of production and technical processes first come into being in the laboratory. A series of new industries, including high-polymer synthesis, atomic energy, electronic computers, semiconductors, astronautics, and lasers, have been founded on the basis of newly emerging sciences." (ibid) Obviously, this is a new mechanism and pattern which promotes the development of the productive forces and is also a mechanism and pattern which occupies a dominant role in contemporary production. In studying

the law of development of modern productive forces, Marxists cannot but take note of such a new thing.

2. As a result of the emergence of this new mechanism and pattern, modern science and technology have developed into a vast scientific and technological system with clear division of work and mutual coordination. In accordance with the classification of scientific research by people in modern times, there are three categories of research and development: The first category is basic research, i.e., theoretical and experimental research which does not immediately serve practical goals, such as the research of particle physics, condensed phase physics, etc.; the second category is application research, i.e., theoretical and experimental research for a specific application purpose, for instance, research into controlled thermonuclear reactions; and the third category is development research, i.e., the development and research of new products, new designs, and new technologies which yield results in the near future, or in the same year, a typical example being the development of high-definition television.

Experience shows that these three categories of research differ in nature but are indispensable to each other. They should be linked together in a certain proportion to form a scientific and technological whole and their work should be passed from one ring to another like a relay baton. Only by so doing can science and technology push forward incessantly the development of the productive forces. Basic research has a vital bearing on the staying power of future research and development and research into practical production technology is often required to be raised to the level of theoretical research before a problem is satisfactorily solved. It is also possible for basic research to generate direct economic results. Since China successfully developed a positron-neutron collider, orders from abroad have come one after another for the purchase of high-energy accelerator parts and China has achieved substantial direct economic results. Therefore, apart from making extremely great efforts to expand development research and application research, various countries in the world have devoted considerable strength to basic research. Without basic research, there would not be such a new mechanism and pattern as "science to technology to production" to promote the development of productive forces.

China is a developing country, and it is also "necessary to attach importance to and conscientiously step up basic research" (Jiang Zemin: "Attach Great Importance to and Energetically Develop Science and Technology"). This is because "both now and in the future there will be many topics of theoretical research for which, at the moment, no practical application can be seen. However, a host of historical facts prove that once a major breakthrough is achieved in theoretical research, it leads, sooner or later, to enormous progress in production and technology." (*Selected Works of Deng Xiaoping (1975-1982)* p 84)

3. To push forward these three categories of research and development, different echelons and different spheres of laboratories and research institutes have been built up in various developed countries. Laboratories, pilot laboratories, and pilot plants have been built in various large enterprises. Major laboratories and research centers on a national scale have also been built either with their branches in the same building or scattered in various institutions of higher learning. Transnational scientific research centers have also been set up. The contingent engaged in specialized research and development can be hundreds of thousands, millions, and even tens of millions of people. This is the big science that some comrades emphasize. Modern science and technology have now entered such an era of big science.

To push forward such a system of big science, national organizations for science management and planning, and national funds, have been established in various countries in the world, and in some countries, state leaders are personally in charge of work in this respect. Developed countries even compete with one another to increase input in the realms of science and education (i.e. the reserves of science). The average spending for research and development accounts for 2 to 3 percent of GNP (only 0.7 percent in China) and such spending continues to increase. The spending on the development of new products, new technologies, and new designs in general accounts for 5 percent of the total business volume in enterprises and, in some cases, the spending is as high as eight percent (only 0.5 percent in China). Such spending can also be charged to production costs.

Marx said that capitalists can make use of scientific forces without paying a single cent. In his "Outlines of a Critique of the Political Economy" Engels criticized the fact that some economists only saw "land, capital, and labor," apart from these elements, never thought of the existence of "the spiritual factors of invention and ideas." Engels also pointed out: Under a rational system, "spiritual factors will of course be included in the production factors and will find their own positions in the item of production expenses in political economy" (*Collected Works of Marx and Engels* Vol 1, p 607). Engels not only saw that "production factors" included the "spiritual factor" of science and technology, he also foresaw that they would "find their own position in the item of production expenses" in future development. These criticisms he made against some of 19th century economists were also extremely to the point for 20th century economists who insisted that science had nothing to do with them.

4. With the development of modern economic life, science and technology have already developed from a position dependent on industry and agriculture to a modern industry, that is, the science and technology industry. Science and technology industry products can

be sold and transferred, that is, they have been merchandized. The value of technological commodities transacted in 1991 in China's technology market, which is not yet quite developed, amounted to as much as 9.4 billion yuan!

An outstanding phenomenon of contemporary economic life is the rise of the so-called software industry. There are about 7,000 companies engaged in developing software in Tokyo alone, with a total volume of business as high as 10,000 billion Japanese yen. The industry employs a total of 1 million employees and is suffering badly from personnel shortages!

Why is there such a pressing demand for the development of the software industry in Japan's economic development? In the first place, it is because the development of modern industry has already made the transition from assembly lines to the operations of various kinds of automatic and control machinery. The following trend has obviously emerged in modern industry: Apart from making full use of the extension of human hands—machines, people are making full use of the extension of human brains—computers, to speedily promote the development of the productive forces.

Marxists who study contemporary economic life cannot but see the immense role played by science and technology in pushing forward the development of the productive forces. Therefore, science and technology, including basic research, are not just productive forces but primary productive forces.

The Theory That "Science and Technology Are Primary Productive Forces" Is a Major Development of the Fundamental Tenets of Historical Materialism

1. The theory "science and technology are primary productive forces" has developed the fundamental tenets of historical materialism.

One of the fundamental tenets of historical materialism is that productive forces determine the relations of production, and thereby, determine the superstructure, including social ideology. The most essential contribution made by, and contained in, the theory "science and technology are primary productive forces" is that, regarding the question of social historical development, it gives a new and clearer answer to the question: What is the final decisive force in social development? Marxism believes: "Modern natural science, together with modern industries, have transformed the nature entirely and put an end to people's naive attitudes and conduct toward nature." (*Collected Works of Marx and Engels* Vol 7, p 241) In other words, science "increasingly causes natural forces to submit to mankind" (*Collected Works of Marx and Engels* Vol 1, p 616). Comrade Deng Xiaoping further pointed out: It may be science that eventually solves problems. This has given historical materialist tenets a new and modern form.

Because science and technology play a powerful part in promoting the development of the productive forces,

they themselves are revolutionary forces. Just as Comrade Jiang Zemin pointed out, science and technology "not only can greatly increase the productive forces but will inevitably bring about profound changes in production and superstructure relations." ("Speech Delivered at the Fourth Session of the National Congress of China National Scientific and Technological Association")

2. The theory "science and technology are primary productive forces" further guides activity into historical materialism.

Will the inclusion of science and technology, and spiritual factors, in the concept of productive forces cause historical materialism to move toward dualism, or even idealism? Marxism-Leninism believes that the world in essence is matter and consciousness is but the product of matter. Phenomena of every description in the world, including spiritual phenomena, are none other than different formations of matter in motion. Lenin said that the "picture of the world is the picture of the motion of matter and 'thinking about matter'." (*Collected Works of Lenin*, Second Edition, Vol 18, p 370) Marxism-Leninism also believes: "The antithesis between matter and consciousness is absolute in meaning only within a very limited scope and here they are absolute in meaning only in the scope of recognizing the basic question of the theory of knowledge: What is primary and what is secondary? Beyond this scope, the antithesis is undoubtedly relative." (ibid, p 150) What should be made clear is that the relationships between science and technology on the one hand and industry, agriculture, communications, transportation, and other productive forces on the other are not relationships between primary and secondary. Science cannot be separated from science laboratories and scientific experimental apparatus. Technology cannot be separated from industrial laboratories or inspection rooms, nor from test and inspection apparatus and meters. Even in pure theoretical research, or in the sphere of engineering design, various kinds of calculating instruments, such as computers, are also used extensively. Of course, science and technology also include spiritual factors or factors of recognition. However, scientific knowledge is, first of all, the reflection of the law of nature. Technical knowledge is the summary of experience and skills of how to use the law of nature by men to transform nature and cannot simply be summed up as the reflection of the course of industrial and agricultural production. Therefore, the inclusion of science and technology and spiritual factors in the concept of productive forces is absolutely not the so-called compromise between materialism and idealism because here, the antithesis between primary and secondary in the scope of the basic question of the theory of knowledge does not exist and what is here, is precisely the conformity of subject with object and the integration of thinking about matter with motion of matter.

A fundamental difference between Marxist materialism and vulgar materialism or all past materialism lies in whether or not practice and subjective initiative are guided into the materialist system. It is precisely because

Marx guided practice into the materialist system that he was able to further develop the materialism which already existed into a complete materialist theory, including historical materialism. By further guiding science and technology into the scope of productive forces, Comrade Deng Xiaoping further guided activity into historical materialism. Matter in historical materialism is not matter outside the human factor or matter that has nothing to do with spiritual factor, but is matter composed in accordance with a special mode. In other words, it is activities of scientific experiments and production practice which, consciously and with initiative, transform nature carried out by man and human brains on the basis of mastering certain objective laws and gradually freeing themselves from blindness toward nature. Just as Lenin pointed out: "Practice of mankind has not only... phenomenal significance, but also objective practical significance." (ibid, p 104) That is to say, practice not only has an extremely important position in the theory of knowledge but also has the meaning of ontology within a certain realm. Such is the case in historical materialism. Naturally, the unity of opposites between the productive forces and the production relations is the most important sphere in the theory of historical materialism and the theory of "science and technology are primary productive forces" regards scientific experiments and production practice as decisive motive forces which determine social historical development. Therefore, to lay it down that science and technology are primary productive forces further guides a conscious dynamic role into historical materialism and raises the theory of historical materialism to a new level.

3. Advancing the theory "science and technology are primary productive forces" will further deepen people's understanding of the mutual relationship between the various component factors of productive forces.

About the component factors of productive forces, Marx said: "The simple essential factors of labor process are activities with purpose or labor itself; the object of labor; and the means of labor." (*Collected Works of Marx and Engels*, Vol 23, p 202) Here, Marx was referring only to the three essential factors of the labor process. Marx discussed many essential factors about the productive forces, including both the essential factors of matter, generally known as the three essential factors, and other essential factors, even essential spiritual factors, for instance, division of labor and cooperation, management and operation, improving the quality of laborers, the application of science and technology, etc. Marx also wrote: "As a general spiritual fruit of social development, science is likewise expressed here as something directly incorporated in capital... and plays its role as a capital productive force." (*Collected Works of Marx and Engels*, Vol 49, p 115).

Therefore, among the component factors of the productive forces, it is not enough just to see the factors of matter, and it is a narrow view to exclude the role of spiritual factors in the development of productive forces. Of course, spiritual factors must be combined with

material factors and science and technology must also be transformed from general productive forces into actual productive forces. However, one cannot thus think that science and technology are only "factors which affect productive forces and not the component and essential factors of productive forces." In fact, there is a process of transformation from general productive forces to actual productive forces for all three essential elements in the labor process. Philosophically speaking, the premise for the realization of transformation is that it must have identity. Without identity, transformation cannot be realized. The transformation of science and technology simply must go through some complicated links.

Some comrades have summarized the relations between spiritual essential factors and material essential factors in the development of productive forces as follows:

Productive forces equal spiritual essential factors times material essential factors equals (science and technology plus operation and management plus ...) times (laborers plus laboring tools plus objects of labor).

This vividly explains the different roles of spiritual factors and material factors in the development of production and also explains the low level of productive forces in the early societies. In those societies, the contributions made by spiritual factors were relatively small.

4. The theory "science and technology are primary productive forces" has enriched the theory that "the human factor is primary."

To sum up, the essential factors of productive forces are none other than human and material factors. In the mutual relations between human and material factors, which is most important? Marx pointed out: "One of the most powerful productive forces is the revolutionary class itself." (*Collected Works of Marx and Engels*, Vol 4, p 197) Lenin's reply was: "The most important productive force of all mankind is workers, laborers." (*Collected Works of Lenin*, Second Edition, Vol 36, p 346). What after all is the relationship between the formulation "science and technology are primary productive forces" and "the human factor is primary?" To this, Comrade Deng Xiaoping replied: "Throughout history, the means of production have always been linked with a given type of science and technology, and likewise, labor power has always meant labor power armed with a certain degree of knowledge of science and technology. We often say that man is the most active productive force. 'Man' here refers to people who possess a certain amount of scientific knowledge, experience in production, and skill in the use of tools to create material wealth. There were vast differences between the instruments of production man used, his mastery of scientific knowledge, and his production experience and skills in the Stone, Bronze, and Iron Ages, and in the 17th, 18th, and 19th centuries. Today, the rapid progress of science and technology is speeding up the introduction of new production equipment and new technological processes. Many products

are superseded within a matter of a few years by a new generation of products. Only by acquiring a higher level of scientific and general knowledge, richer experience in production and more advanced skills can the worker expand his role in modern production. In our society, workers have a high degree of political awareness and study assiduously for the conscious purpose of raising their level of scientific and general knowledge, so they will doubtless be able to achieve higher labor productivity than that under capitalism." (*Selected Works of Deng Xiaoping* (1975-1982) p 85) In the opinion of Comrade Deng Xiaoping, the so-called "human factor is primary" and its most important and concentrated expression is "science and technology are primary." Moreover, science and technology are likewise created by man, and therefore, "science and technology are primary" is tantamount to "the human factor is primary." Of course, the man referred to here includes both laborers who have mastered modern science and technology and scientific and technological workers who really push forward the progress of science and technology.

If we borrow the formula about the component factors of productive forces mentioned above, we will have:

Primary factor in the productive forces equals science and technology times laborers.

This generalization shows the mutual relationship between "the human factor is primary" and "science and technology are primary."

The Theory "Science and Technology Are Primary Productive Forces" Is of Great Guiding Significance in Observing and Studying Contemporary Capitalist Society, Pushing Forward China's Socialist Modernization, Reform, and Opening to the Outside World

First, the theory of "science and technology are primary productive forces" has provided a new perspective for analyzing and studying the political, economic, and other issues of the contemporary world. In studying the political, economic and other issues of the contemporary capitalist world, the influences of science and technology on the political, economic, and other social issues should be fully taken into consideration. For example, on the question of how to evaluate national strength, comprehensive national strength should be studied. That is, in studying and analyzing the national strength of various countries in the contemporary world, one should not keep one's eyes only on per capita GNP. It is not only because, in calculating per capita GNP, exchange rate, which only provides convenience for settling export and import trade accounts but does not necessarily reflect the actual value of currency, is used but also because factors, such as science and education are likewise important factors reflecting national strength. As Comrade Jiang Zemin pointed out: "Viewed from a worldwide scope, competition between countries are, in the final analysis, trials of comprehensive national strength. The heightening of comprehensive national strength in various

countries in the world today depends to a very great extent on the progress of science and technology. International economic competition is increasingly expressed in competition in science and technology and human resources. If we wish to win victory in these competitions, we must make up our mind to develop science and technology to promote economic and social development." ("Attach Great Importance to and Energetically Develop Science and Technology") Some economically rich countries even surpass the most developed capitalist country in per capita GNP but people do not regard them as first world countries because their science and education are not developed. The theory "science and technology are primary productive forces" provides a theoretical basis for this type of more scientific method for the evaluation of comprehensive national strength.

Second, the theory "science and technology are primary productive forces" clearly shows the orientation for China's socialist modernization. China's socialist construction cannot rely on deprivation of the peasants, nor can it rely on aggression against and oppressing the Third World. It can only rely on increasing production and practising economy, self-reliance, hard struggle, and building up the country through thrift and hard work. However, experience has also proved that in the course of socialist construction, excessive reduction in the livelihood demands of the broad masses of laboring people will lead to turbulence and unrest in social order and will even trigger off political crises. That is to say, on the question of economic development, it is necessary to carry out the policy of taking agriculture as the foundation and integrating agriculture, light industry, and heavy industry which will slow down the speed of accumulation. The theory "science and technology are primary productive forces" shows clearly the orientation for the source of socialist accumulation. China's socialist construction cannot take the road of so-called selling resources, cannot only develop labor intensive industries, and cannot rely on "imports" to buy modernization. It can only take the road of developing the economy by "relying on scientific and technological progress and improving the quality of the laborers." It is necessary to obtain beneficial results from science and technology and human resources from education. This is the only realistic and effective way. Therefore, science and technology are the source of national wealth.

The theory of "science and technology are primary productive forces" also clearly shows the orientation for China to further readjust the production relations and do a good job in reform and opening to the outside world. Reform should take not only the liberation of industry, agriculture, and other productive forces as an important goal but also take the liberation of the primary productive forces of science and technology as the primary goal. In opening to the outside world, it is necessary to introduce funds and advanced management experience and, in particular, it is necessary to introduce advanced science and technology. As Comrade Deng Xiaoping pointed out: "Of the four modernizations, the key is the

modernization of science and technology." (*Selected Works of Deng Xiaoping (1975-1982)* p 83)

The theory "science and technology are primary productive forces" also put forward how to calculate the value of mental labor in the theory of the political economy; whether or not education and other lines have the dual nature of both superstructure and productive forces; and so on. In short, advancing such a theory will set off new research on many issues.

The theory "science and technology are primary productive forces" has further guided activity into the tenets of historical materialism that productive forces are decisive forces of social historical development. It is a major development in the fundamental tenets of historical materialism. The research and exploration by Comrade Deng Xiaoping have set an example for us on how to absorb the achievements of modern natural science into Marxist theories, thereby enriching and developing Marxism.

FINANCE, BANKING

Lessons Drawn From Japanese Banking Practices

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[Article by Lu Baifu (7120 4102 3940), Development Research Center, State Council: "Survey of Japanese Finance and Lessons To Be Drawn From It"]

[Text] The United Nations Development and Planning Office Financial Aid Project Task Force on *Financial Policy and Financial Systems* conducted a survey of Japan's financial policies and financial system. It visited 13 banks and other institutions in both Tokyo and Osaka, namely the Ministry of Finance Government Finance Research Institute, the Bank of Japan, the Long-Term Credit Bank of Japan, the Industrial Bank of Japan, the Japanese Development Bank, the Export-Import Bank, Mitsubishi Bank, the Tokyo Stock Exchange, the Nomura Securities Comprehensive Research Institute, the Economic Planning Office, two local banks—Senshu Bank and Osaka Bank—and the Osaka branch of the Long-Term Credit Bank. It toured two large businesses—the Kawasaki Iron Works and the Sanyo Electrical Machinery Plant, and conducted a wide-ranging inquiry with Japanese financial experts on issues such as the evolution of Japan's financial policy and system, the present orientation of Japan's financial policy and system, and suggestions for China's financial reform.

1. Japanese Financial Policy Changes and Insights

Japan is a capitalist country with a market economy. However, since its historical background differs from that of Europe and the United States, prior to the 1980's,

its financial policy and organizational system were Japanese in character. This was manifested in three main ways as follows: (1) The use of an indirect form of financing that went from residents to banks to businesses primarily. Long-term financing came mostly from the issuance of bonds to which banks and corporations subscribed. The capital market was by no means well developed. (2) Government was relatively important to financial institutions. Financing for policy reasons played a major role in the development of the industrial economy. Government control and supervision of financial institutions was extremely strict. Unlike numerous western countries, Japan placed numerous restrictions on the operation of all types of banks. (3) For a long time, interest rates were those that the Bank of Tokyo (the Central Bank) set; they were by no means totally "market interest rates"; thus, Japanese interest rates were always regarded as "low" and "preferential."

Japanese financial experts believe that during Japan's economic recovery period and during the period of high-speed development when the shortage of capital was serious but the need for industrial development funds was high, and the international climate did not permit the raising of more foreign capital, this system of raising capital, in which banks acted as an intermediary, was extremely advantageous for the following reasons: (1) It helped amass large amounts of money from small amounts, better regulated capital demand, helped supervise the use of limited funds, and helped increase returns from the use of funds; (2) macroeconomically, it was fairly easy to control the operation of the economy. Because Japan lacked well-developed markets and conditions for fair competition at that time, the interest rate lever could not by itself effect regulation and control; (3) fairly low cost capital provided the large amounts of capital needed to satisfy business development needs.

For a long time, Japan's loan interest rates remained fairly low and without much fluctuation. Only short-term borrowing among financial institutions showed relatively great fluctuation. Mostly used for the purpose of regulating the total amount of demand and make-up of funds, this situation also greatly benefitted enterprise development and the stable development of the entire economy.

Many Japanese financial experts believe that the current stage of China's economic development is very similar to the situation in Japan at that time; therefore, these Japanese methods hold some lessons for reform and perfection of China's financial system today.

A look at the framework of the financial system shows differences between Japan and the west as well. A system framework of different lines of specialization has endured for a long time, meaning a system of strict differentiation between the central bank and commercial banks, government finance and civilian finance, long-term credit and short-term credit, internal capital transactions and foreign exchange transactions, and bank transactions and securities transactions. Commercial

banks are divided in turn into long-term credit banks, urban banks, local banks, and trust banks, each having different functions.

Nevertheless, with the entry of Japanese economic development into a "stable growth period" and the development of world economic integration beginning in the 1980's, as well as the upsurge in both Japan's domestic capital accumulation and its favorable international balance of payments, Japan has gradually loosened financial restrictions. Now, Japan's financial system is becoming closer to the west's, and restrictions have been completely lifted on transactions by various kinds of financial institutions permitting a complete overlapping of activities. On 1 July 1991, the Bank of Japan formally announced abrogation of administrative guidance [madoguchi shido] to all financial institutions. Although the central bank of Japan still retains the "interest rate lever," this does not actually play a great role. The influence of market interest rates has greatly increased. Japanese finance has virtually taken the road of "greater comprehensiveness," "greater internationalization," and "greater liberalization" (meaning complete loosening of restrictions).

Japanese experts believe that conditions in Japan's own development and certain objective factors account for Japan's financial system having taken this "three greaters" path. Principal of them have been the following: (1) Rise in the people's income has meant a greater choice of financial commodities. The marked rise in income of the residents of Japan in recent years has rapidly generated demand for new places to put funds. The citizenry is no longer satisfied with the forms of savings; they want more kinds of markets for their funds such as a change to investment in stock and bonds. (2) The nature of the demand for funds has changed from mostly business demand to mostly demand from the public sector. In addition, businesses have ample funds of their own, thereby freeing them from reliance on banks for funds. They hope to open new funds markets, businesses thereby directly providing the market with finance capital. (3) The way in which funds circulate has changed. The government fiscal deficit has increased, large numbers of government bonds being issued. Numerous projects are directly financed with government bonds, the circulation of government bonds becoming a major part of the capital circulation market. (4) The inflation rate has steadily risen and the people's demand for a good price for their funds has increased. No longer is the "low interest" of banks as middlemen and the "preferential" support for government policies workable; thus, the market price of funds plays a guiding role.

Many Japanese experts believe that the situation in China today is different; Japan's methods cannot be mechanically applied. Nevertheless, during the 1990's, China will improve its international contacts, and while carrying out banking reform, China will tend toward "greater internationalization" in finance with the world's major countries. It will have to be able to adapt to a certain extent, and it will have to make sure to do all

possible to dovetail its domestic financial system with the international financial system, erecting a suitable bridge.

In addition, some financial experts in Japan believe the system deficiencies in China's macroeconomy today are of four kinds as follows: (1) Lack of an effective mechanism to effect overall economic balance and control. The economy fluctuates too greatly; (2) an organizational system that can easily give rise to inflation; (3) an irrational investment system resulting in low returns; and (4) the international balance of payments can easily become unfavorable; an automatic regulation mechanism is lacking. They believe that financial reform is the key in overcoming the foregoing four major shortcomings.

The Japanese financial experts made numerous recommendations about China's future financial reform, covering 10 points in all.

1. The need for greater use of the banks' intermediary role in giving impetus to development of the industrial economy. For China today, no resource holds more importance than capital. Direct financing will develop in China in the future, but the percentage of indirect financing using banks as an intermediary must be greater. This will better help raise capital utilization efficiency. At the present time, securities must not be overused as a means of raising capital.

2. The opening and development of financial markets must go forward in an orderly way; there should be no undue haste to take action. At the present time, China should first improve the banking system climate to improve the flow of capital among banks. First of all, it can build a real rather than a nominal market for the short-term borrowing and lending of funds. A commercial paper market must be opened up, but low collateral types must be decided by the government. Unduly hasty action should not be taken regarding a stock market. While building a securities market, a "broker" system must be established. Government must devote much effort to this segment.

3. The central bank must perfect macroeconomic regulation and control methods. It must make strenuous efforts to regulate supply and demand for capital. All of Japan's commercial banks depend heavily on the central bank; they are extremely sensitive to central bank financial policy. China still lacks such a mechanism. Too often in China, the commercial banks "stick to the old ways," or "publicly comply but privately oppose." Japanese commercial banks do not dare do such a thing because their interests will not allow it.

In Japan, the central bank sets the legal interest rate, but there is a "high interest use system" and a "punitive interest rate system." But this does not apply to ordinary credit. Generally speaking, high interest policies are not employed when the central bank provides financial support to specialized banks to help them with the additional funds support required to meet needs resulting

from temporarily increased cyclical fluctuations of credit on a larger scale. High interest policies are used only when the specialized banks issue too much credit, thereby causing a funds shortage.

4. No matter whether business is done for commercial reasons or policy reasons, banks must bear responsibility for profits and losses as the only way of making a return. This is the basic requirement in bank transactions. Proper control of bank size so that a bank does not become too large is extremely important. Control over bank size is an important aspect of bank control in Japan. Japan's largest bank—the Mitsui Taiyo Kobe Bank—employs 23,000 people. Dai-ichi Kangyo Bank is second with only 20,000. Only in this way can monopolies be broken up, competition be fair, services improved, and returns increased.

5. Central bank currency policy goals must be clear. Japanese experts noted that China's practice of a planned commodity economy in which both intermediate and long-term, as well as annual development, is guided by plan, is extremely helpful in figuring currency supply and the price index. It is also extremely helpful in controlling currency supply. They believe that currency control must begin with control of the economy. The cart should not be put before the horse. As to what the goal of currency policy should be, controversy also exists in Japan. Nevertheless, an increasingly large number of people believe that economic development is better when prices are stable and currency is controlled.

6. Building of a strict bank management system to increase return on funds. Japanese experts said that the most fundamental goal of financial reform is the equitable use of funds. Finance plays a middle man role with the goal of developing industry, which is to say finance plays a supporting role rather than a main role. The key to Japan's success in using a relatively small amount of money for economic development lies in its attention to improving the return on capital. Japanese banks are extraordinarily strict in granting credit to businesses, requiring that they reveal all. However, once credit has been approved, they are careful to provide service. Consequently, there is a saying that goes, "Before it grants credit, a bank is a demi-god; after it grants credit, it is a slave." Banks want to be strict about granting credit and also help solve difficulties. For the customers, banks are both a "headache," and a "support."

7. A financial system must be built that is able to reduce and cut down on reserve funds. Japanese experts believe that for China to have a funds shortage while large amounts of money are tied up in reserves is truly a waste. In Japan, the ratio between equipment funds and reserve funds is four to one, but in China the ratio is too high at a general one to one or even higher. If the money in reserves cannot be reduced, the banks are powerless to hasten development of the economy.

8. Need for rational solution to the problem of bank parochialism. Some experts believe that although

China's banks are national in character, since the heads of branch banks are chosen locally, they find refusal of local government requests difficult; consequently, the local tilt in financing is fairly serious, but in most cases the head office—the central government—has to bear the consequences. This is a major problem in the fitness of the Chinese financial system. Even after authority for the appointment and removal of cadres reverted to a higher level, the tendency toward parochialism was by no means completely solved. Modest development of local banks or appropriate division of existing specialized banks into fairly small multiple service banks might be an alternative. By so doing, local governments would be responsible for the use of funds; thus, they might restrain themselves more, and this would also help macroeconomic regulation.

9. A financial system that provides long-term funds at low interest must be devised. Some experts said that China's industrialization and modernization require large amounts of long-term investment, which cannot be guaranteed through reliance on savings accounts and short-term funding over a long period of time, and which also poses certain risks. During the next 10 years of banking reform in China, means must be found to establish a stable system for raising and using long-term capital.

10. A highly ethical corps of bank management talent must be built. Japanese experts emphasized that banking is a special kind of business in which bank cadres must stress "ethical principles," meaning they must have a strong policy sense, act impartially, and be honest in the performance of their duties. Otherwise, the banking system will not run well. When problems occur in banking, they may frequently be big problems that can upset social and economic life. In Japan, bank cadres are staunch, and discipline requirements are strict. This is less true in the securities business. The recent securities scandals have resulted not only from problems in the securities business itself, but also from the Ministry of Finance regulating banks strictly while regulating the securities business loosely.

The Role of Japan's Long-Term Financial Investment System in Spurring Development of Japan's Industrial Economy

In both the revival of its economy and the development of its industry and in the subsequent period of high-speed economic growth following the war, Japan benefited from having a very successful long-term financial investment system, which assured both implementation of Japan's national industrial policy and the development of major industries.

Japan's long-term financial investment system has three of the following facets: First is the building of a number of developmental financial institutions, both government-linked development banks such as the Japan Development Bank, various kinds of treasuries, and the Export-Import Bank, which accepts foreign funds, and

civilian development banks such as the Long Term Credit Bank of Japan, and the Industrial Bank of Japan. As a result, industrial financing is available for industrial development, and industrial development is also guided by industrial financing. This produces both high returns and a correct orientation. Second is the building of a total system for raising long-term capital. This includes the establishment and perfection of a government investment system based on postal savings, and a long-term credit banking system primarily for the purpose of issuing finance bonds, as well as a share system for the accumulation of capital. Third is the building of a credit banking system to serve as an investment style financing bridge among individual businesses.

At that time, the above three kinds of capital accounted for approximately 50 percent of all long-term investment capital in Japan, some major firms using the above means to raise as much as 60 to 70 percent of their investment capital.

As an accompaniment to its long-term investment financing system, Japan also promoted a body of effective long-term investment policies from which it derived marked policy achievements. Principal among them were the following: (1) Adoption of a low interest rate credit policy to spur business interest in investing in equipment; (2) adoption of a system for orientation toward "business conglomerate credit" to increase returns from the use of credit and reduce credit risks; (3) adoption of a coordinated financing system in which various banks coordinate financing, concentrating it on key industries; (4) adoption of a Ministry of Finance Funds Use Department system whereby postal savings funds were included in government investment, and used directly in the development of government-supported key industries and businesses through special accounting and budgeting by various public bodies and public institutions; (5) and use of a system whereby government-linked banking institutions and civilian banking institutions coordinated investment, thereby channeling civilian investment in a direction consistent with national industrial policy requirements. Major projects were jointly financed by many different sources.

Although it financed projects of a policy nature, thanks to a mechanism that was consistent with bank operation, the Japanese government-linked Japan Development Bank not only completed fairly well the task of developing industries in keeping with national industrial policy requirements, but was also able to be responsible for its own profits and losses, replenishing its capital while showing a slight surplus as well. The Japan Development Bank had four main business policies as follows: (1) Lending of money for value, making sure to recover the loans with interest; (2) low interest rates, generally 1 percentage point lower than those of civilian banks; (3) no issuance of credit for projects having no market benefit; and (4) distinguishing between credit used primarily for projects having a strong public character and those responding completely to market mechanism requirements.

Some of the Japan Development Bank's funds came from government loans at a 6.6 percent interest rate. These funds were also loaned to businesses at a 6.6 percent interest rate. However, it was able to make a return on some of its own capital. It set aside 0.3 percent annually as a reserve for bad debts, but since there were virtually no bad debts, it rarely touched this reserve. Instead, it was added to capital. In addition, most commercial banks had to pay a 55 percent corporate income tax, but the Development Bank was exempt from payment of a corporate income tax. Consequently, after making all deductions, the Japan Development Bank was still able to turn over money each year to the Ministry of Finance. The experiences of the Japanese government-linked Development Bank hold significance for China's reform of banking business of a policy nature and the bank operating system.

During the 1970's and before, long-term investment funds were raised and loaned in Japan through long-term bank credit. However, beginning in the 1980's, as a result of the "liberalization" of financial policies, the amount of funds raised through the sale of securities gradually increased to the point where securities and bank credit rank equally today as the two major forms of investment financing. However, Japanese financial experts estimate that this trend will not continue during the 1990's. Financial freedom will be limited, meaning that security sales will not be able to develop very quickly; however, because of the increase in the amount of funds that business themselves have, a rise in residents' income, and the need for a diversification of financial commodities, securities will remain the major source of funds for long-term investment.

Japanese experts believe that in its future development, China should also use securities to raise long-term development funds; however, it must watch out for three problems as follows: First, in the management of securities, China cannot mechanically adopt in its entirety the American way of relying on the law, nor can it mechanically adopt in its entirety the Japanese way of relying on administrative control. Instead, from the very outset, it must adopt a combination of both the legal method and the administrative control method. This is the only way to get healthy development and control of the securities market. Second, China's control of the securities business today is not unified, which is to say that the treasury controls one part and the central bank controls another part. This can produce turmoil and become an obstacle to the healthy development of the securities business. Third, in the development of the Chinese securities business, attention must be given to use of the market mechanism instead of excessive artificial regulation. In this way, risks may be reduced to the minimum. Particular care must be taken to make information freely available in order to reduce speculation so that trading is truly fair.

Role of the Japanese Local Banking System in Japan's Economic Development

There are three kinds of banks in the Japanese civilian banking system: One is the long-term investment banks; one is the urban banks, i.e., ordinary commercial banks that may do business across jurisdictional lines; and one is local banks, i.e., banks of a local nature who service medium- and small-sized businesses in their own areas. However, Japanese local banks are not local government-linked banks, nor are they banks performing policy functions. They are civilian commercial banks that provide services for the development of the local economy and society. However, since local banks are located in local areas and have as their goal serving the vigorous development of the local area, they play a very good role in providing capital for local development. In the past, people paid relatively little attention to the role of local banks in the development of the Japanese economy, when actually they provided marked impetus to the local economy. This is something that merits our study.

There are a total of 64 local banks in Japan today, branches and sub-branches of which are located in all the large, medium, and small cities and towns in the country, and which hold a marked attraction for local economic and social development. As of March 1990, these 64 local banks had a total of 7,456 branches and sub-branches, employed nearly 160,000 people, and had a capitalization of yen 7.4108 quadrillion (approximately \$54 billion), held securities worth yen 32.5343 quadrillion (approximately \$237 billion), and held savings totaling yen 151.4 quadrillion (approximately \$1.1 trillion), which was 17 percent of all savings in civilian banking institutions nationwide for second place after urban banks (24 percent). Credit outstanding totaled yen 111.4 quadrillion (approximately \$813 billion), which was 18.1 percent of the total credit outstanding for civilian banking institutions nationwide for second place after urban banks (32.7 percent).

The function and scope of Japan's local banks have gradually increased with the development of the economy and changes in Japan's financial policy, making them the multiple service financial institutions that they are today. Their primary functions may be summarized as six: (1) Soaking up the savings of medium and small businesses and the bank deposits of individuals; (2) issuing short-term loans to medium and small businesses; (3) buying and selling stock shares and other negotiable securities; (4) providing support for the building of local cities and towns and social projects; (5) handling credit investment; and (6) doing international credit business and foreign exchange business. In addition, they work with Japanese long-term investment banks and other banks in providing syndicated long-term credit for major local projects.

During our survey, we found that the relationship, functions, and parties served by the three major kinds of bank in the banking system are not entirely the same. There is both a division of labor and cooperation among

them; there is both competition and mutual assistance; and each has its strengths and weaknesses. Moreover, the strengths of one may often make up for the weaknesses of another. This is the result of many years development of the finance and banking business in Japan in which all types of banks have found their own niche. Long-term investment banks mostly serve key national industries, and they focus on large cities, large businesses, and projects that cross jurisdictional lines. Urban banks mostly serve large- and medium-sized businesses in large- and medium-sized cities, and local banks mostly serve local projects and medium and small businesses. They have a fairly pervasive presence in local businesses. In terms of number of depositors, number of customers, and business capacity, they are stronger than urban banks. Some Japanese financial experts believe that these three kinds of banks are relatively monopolistic in one way, yet they each perform a needed role.

Apart from meeting local development and small- and medium-sized business needs, the reason Japanese local banks have a certain amount of vitality may be found in the relative emphasis they give in business to the following four points: First is attention to making a return; second is attention to providing services; third is attention to the public nature of those they serve; and fourth is attention to safety in providing loans. Many local bankers believe that only by upholding these four principles in their operations can local banks become better and better, raise their reputations, and be extremely attractive locally.

During the survey, we also came to realize that despite its small size, Japan has a substantial population, and that the needs of national and local development are not entirely the same. The establishment of local banks can play a role in making up omissions and deficiencies in the financial system, thereby solving the problem of investment to meet overall national development needs and also the development needs of small and medium size businesses.

In China today, except for the Guangdong Development Bank, all other banks belong to the central bank. Locally, there are rural credit cooperatives under control of the Bank of Agriculture, and urban credit cooperatives under control of the Industrial and Commercial Bank. Every province has set up credit investment corporations, but they are small in scale and non-standardized. Frequently their behavior upsets the financial order. China is a large country with a huge population and a vast territory in which an appropriate division of authority is necessary. In the future, a two tier regulation and control system under central government unified leadership is to be instituted for macromanagement of the economy. In the discharge of its responsibility for local construction, population and employment, and social development, local government must have appropriate regulation and control authority as well as appropriate financial authorities. This is extremely necessary, and it will also help the common development of both

the central and local governments. Therefore, as economic development and reform move ahead, local banks should be gradually, suitably, and conditionally developed. A corresponding readjustment of the area covered and the kind of services performed by central government level banks will help the common development of the two tier economy. It will enable central government level banks to better concentrate on handling major tasks of a national character and that cut across jurisdictional lines.

Were local banks to be developed in China, their functions might be limited to the following six areas: (1) Opening of accounts and collection of savings for local medium and small businesses, and for township and town enterprises, settling both local accounts and accounts from elsewhere; (2) providing short-term credit, financing the production of medium and small businesses and of township and town enterprises; (3) take part in investment syndicates for local economic and social projects; (4) represent local medium- and small-sized businesses, and township and town enterprise in the issuance of share certificates and debentures; (5) act as a depository for local government revenues; and (6) do trust and other business.

If local banks are established in China, they must be independently operated national banks having a local character in which the national treasury, local treasuries, and the central bank hold shares. They must be under leadership of the central bank and operate in accordance with banking regulations. Local government must set up supervisory organs to provide guidance but not interfere in their actual operation.

Local banks are associates in the same business with national specialized banks and other multi-service commercial banks. They must help each other professionally, but also engage in a certain amount of competition. However, they must avoid malicious competition.

Shanghai Opens Metal Futures Market

92CE0501A Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese No 20,
25 May 92 pp 11-13

[Article by He Wan-nan: "The Shanghai Metal Exchange Opens May 28—The First National Futures Market To Develop 'Speculation in Stocks'"]

[Text] Recently, William Grossman, senior vice-president of the Chicago Futures Exchange predicted: Shanghai may become the biggest futures market in Asia, and may join Chicago and London to become one of the three major futures trading centers of the world.

At present in Asia, only Japan and Singapore have rather successful international futures markets. Because both countries lack natural resources, the main business there is financial futures trading. Asia still lacks commodities futures markets based on agricultural and sideline products as well as raw materials.

The world economy is a system of circulation. Because of time differences, there is a "gap" of five hours in terms of business time after the Chicago and London markets close. The international community hopes that Shanghai will close this gap by opening a commodities futures market.

The Shanghai Metal Exchange based mainly on futures trading will open on May 28. "Speculate in stocks"—a derogatory phrase representing a concept most unacceptable to the Chinese in the last 40 years—is coming, with honor and speed to Shanghai, China's largest financial and economic center.

On the eve of the opening of the exchange, the exchange's first president Mr. Yu Guocong said frankly in an interview: "We are not very familiar with the matter of futures. But we will do well, because we need such a thing."

Price Reform Leads To Call for Futures Market

In April 1991, the Ministry of Materials and Equipment held a "Symposium on International Futures Trading" in Shanghai, and invited a group of well-known international futures trading experts to give lectures. Before that, as early as the late 1980s, a group of young and middle-aged scholars in the decision making stratum in Beijing and think tanks began studies on futures, and put forward detailed plans on opening futures markets on the mainland. In their view, the two most important material conditions for opening futures markets are: (1) There needs to be a large spot market characterized by price fluctuations, and (2) the state no longer sets prices. These two conditions already basically exist on the mainland. Presently, mandatory plans cover less than 30 percent of the means of production. However, in the absence of futures markets that could perform the functions of "price discovery" and "risk minimizing," prices for the means of production experienced rounds of sudden surge and plunge in the last few years, leading to rounds of sudden surge and plunge in production. As a result, producers, businessmen, and consumers have all suffered great losses.

China cannot do without futures markets. But according to China's relevant laws and regulations, to gain profits from trading using economic contracts constitutes the act of profiteering. In this respect, Zhangjing, deputy director of the Contracts Department of the State Bureau for Industry and Commerce Administration and an enthusiast for futures trading, said: In the explanatory notes on the relevant statutes promulgated in 1990, we indicated explicitly that exceptions had been made for trading activities based on economic contracts carried out in the futures markets established with the state's approval. The deputy director said with humor: "Before anyone else, the government bodies for industry and commerce administration have emancipated futures trading from the confines of legal prohibitions, as can be done within the limit of their authority for interpreting the law."

A National Futures Market

The Shanghai Metal Exchange will be under the supervision of both the Ministry of Materials and Equipment and the Shanghai People's Government. The deputy mayor of Shanghai Gu Chuanxun will hold concurrently the post of the chairman of the management committee of the exchange. In an interview, an official of the Ministry of Materials and Equipment said the government bodies concerned selected Shanghai as the national futures market mainly based on considerations of Shanghai's comprehensive strengths. Shanghai is the largest economic, financial, and information center and transportation hub on the mainland. Shanghai and its surrounding areas are also China's largest producing areas and consumption markets for raw and processed materials including metal materials. Shanghai's annual volume of consumption for nonferrous metals alone exceeds 400,000 tons. Especially, the Shanghai Stock Exchange has been in operation for a year and a half. The people of Shanghai are increasingly strong in their consciousness of financial investment. Such financial assets as bonds and stocks already account for one-third of the urban population's savings. Of a population of over 13 million in Shanghai, more than 200,000 are stockholders. A substantial number of Shanghai residents and nonresidents who came to Shanghai with huge sums of money earned through securities trading have made their fortunes trading stocks. They would like to engage in futures trading and real estate trading, and want to try even more up-to-date, exciting ways of investment. According to this official, some commodities markets in the inland regions look somewhat deserted because they remain mostly spot markets, then the main actors of futures markets—those engage in hedging for value-preservation purposes and those who speculate on goods in short supply—have received training and matured in Shanghai. Owing to the actual existing situation, in the early stage the exchange will start with spot trading and contract-based transfer of spot goods. Before long, futures trading can also begin.

Breakthroughs in Price, Management and Finance

Shanghai began to consider allowing trading in futures some time ago. The Shanghai municipal government promulgated a local statute "Provisional Regulations for Managing the Shanghai Metal Exchange," aside from allowing contract-based trading, contains breakthroughs in three areas as compared with the existing policy and other trading markets on the mainland:

First, in terms of price policy, within China there are still both in-plan prices and outside-plan prices for means of production. In-plan prices are set by the state. The state also sets a ceiling for outside-plan prices. However, prices will be totally decontrolled in the Shanghai Metal Exchange, and will move according to the market situation. The ceiling will be eliminated. Trading in spot goods will be temporarily limited to "outside-plan" products. But with the beginning of futures trading, the exchange will only consider relevant contracts, instead of

whether the goods are of in- or outside-plan, as long as the relevant transaction is based on standardized contracts. Furthermore, price controls exercised by the state over means of production will eventually be lifted. According to Chang Qing, consultant and research fellow at the Development Research Center of the State Council, China should learn from other countries. It is necessary to use price intervention to cover only those items that directly relate to the life of the population, such as rice, college tuition, public transport fares as well as water, electricity and gas. However, prices of means of production do not directly concern the population, and will affect the prices of finished consumer goods only after traversing through many stages. He thus firmly believes, the day when the prices of means of production are totally decontrolled will be the day when there will be active trading in futures in China.

Second, in terms of the scope of enterprise operations, all businesses that are members of the exchange will be allowed to engage in trading conducted through agents. The trustees will be allowed to engage in both spot and futures trading in metals without being confined by any scope of operation. Because many members of the exchange are not engaged in circulation, but are production-oriented businesses and big consumers of materials, we will allow them to be agents and allow production-oriented businesses to be traders. And allow the trustees to exceed the limit of their scope of operation is in fact to allow those businesses with no real need for metals to engage in short-term speculation in the form of arbitrage. Obviously, this is based on a policy of creating markets and creating speculators.

Third, in terms of financial accounting, it is clearly stipulated that income from trading is considered profits for the enterprise, and that losses from trading are to be offset by the enterprise's profits. This provision is especially important. In the early phase of the exchange's operation, the main actors in the market will be large businesses, especially some state enterprises. Profits from trading will be turned over to the state, and the state will also be responsible for the losses. Therefore, these businesses will not necessarily feel the need for conducting trading at the exchange. Now it is clearly stipulated that the profits retained by the enterprises can be used not only as funds for developing production but also as bonus and welfare funds for employees. In stock-issuing enterprises, the profits can also be used to benefit the stockholders. Only in this way is it possible to stimulate those thoughtful and courageous enterprise managers, and to let them boldly enter the exchange to buy futures so as to reap profits.

Three Categories of Actors To Be Exchange Members

The soon-to-open Shanghai Metal Exchange operates on the basis of a membership system. There are 68 seats in the trading hall. According to the exchange regulations, a member must have the status of an independent legal person, and can either engage in trading itself or act as agent. Membership is open to three categories of actors:

1) Enterprises that engage in the production, use, or trade in metals, 2) foreign trade enterprises, and 3) financial institutions. At the same time, a member must have at least 5 million yuan (RMB, the same below) in registered capital, and conduct trading that exceeds 30 million yuan annually at the exchange. Of the 43 starting members, there are 12 national-level firms, 12 firms from the Shanghai region, and 19 firms from outside Shanghai.

President Yu Guocong gave an analysis of the members: Enterprises that engage in circulation have a stronger investment consciousness than enterprises that engage in production. Among enterprises that engage in circulation, foreign trade enterprises have a stronger investment consciousness than enterprises engaged in domestic trade, and financial institutions have the strongest investment consciousness. Of current members, there are three foreign trade enterprises, and three financial institutions. Of most of those enterprises which have something to do with metals, about half are production-oriented businesses and about half are trading companies. This reporter attended a general meeting of the members. One member, a large Hunan smeltery, said it became a member of the exchange mainly to use the exchange as a window to enhance name recognition for its products, and obtain market information and price signals to make production-related decisions. It seems that, similar to the situation in foreign futures markets, those production-oriented businesses are mostly there for value-preservation purposes, trying to minimize risk through hedging. Because a large Shanghai circulation-oriented enterprise profited from engaging in international futures trading in the last two years, it hoped to engage, at an early date, in futures trading, conducting both hedging for value-preservation purposes and arbitrage. On the other hand, financial institutions, based on their strong capabilities in terms of assets, can buy at low prices at times of a weak market, and sell in large quantities at times of a boom market to gain risk-minimizing benefits, and to play the role of stabilizing the market.

Seven Metals Available for Trading

According to a source, when the Shanghai Metal Exchange opens, the commodities available for trading will be six nonferrous metals, copper, aluminum, lead, zinc, tin, and nickel, as well as pig iron. Standardized measurement will be used in trading the commodities. In futures trading, the unit of measurement will be "shou" which is five tons of copper, aluminum, lead or zinc, or two tons of tin or nickel, or 25 tons of pig iron. The unit of measurement for trading in spot goods will be a ton. For a period of time, there will be only trading in spot goods. The buyer and seller must conclude contracts on the deliveries of goods over several months. Those stipulating deliveries within 10 days will be considered spot-goods contracts. Those stipulating deliveries within six months will be considered short-term contracts. Those stipulating deliveries beyond six months will be

considered long-term contracts. Short- or long-term contracts can be exchanged through public bidding and auction at the exchange. At the same time, efforts will be made to create conditions for beginning futures trading by the end of the year. According to a source, futures trading will start from copper. Tentatively, the exchange's main trading days will be Monday, Tuesday and Friday (excepting legal holidays).

To protect the legitimate rights and interests of the two parties of a transaction, all members must place minimum as well as additional cash deposits at the exchange, and have their banks serve as guarantors. Clients and their agents must work out a set of agent rules. To ensure the delivery of goods, the exchange will set up warehouses for to-be-delivered goods in metal-producing areas as well as user-concentrated areas.

Overseas Experts Predict That Shanghai Will Do Well

The prospective opening of the Shanghai Metal Exchange has aroused attention domestically as well as internationally. William Grossman, senior vice-president of the Chicago Futures Exchange, visited Shanghai three times recently. He predicts that Shanghai may become the biggest commodities futures market in Asia, and may join Chicago and London, and become one of the three major centers of commodities futures trading in the world. According to Grossman, at present in Asia there are rather successful international futures markets only in Japan and Singapore. Because these countries lack natural resources, there is mainly financial futures trading. In Asia there are still no commodities futures markets based on trading in agricultural and sideline as well as raw and processed materials. In this regard, China enjoys both an abundance of natural resources and an increasing agricultural output. Shanghai is the largest port city and center for the flow of goods in China. It was a center of commodities futures trading in the 1930s and 1940s. More importantly, the world economy is a system of circulation. Because of time differences, there is a "gap" of five hours in terms of business time after the Chicago and London markets close for the day. The international community hopes that Shanghai will close this gap by opening a commodities futures market. Now, the Shanghai Metal Exchange will soon open. Stepped-up work of preparation for the planned trading markets for food and edible oil and for coal is also under way.

Several Problems Need To Be Solved Before There Can Be International Operation

Can Grossman's prediction become reality? Shanghai people believe the first determinant in this respect will be whether laws and regulations governing futures trading connected to foreign business will be promulgated as early as possible, and whether Shanghai will be bold enough to directly emulate the system of laws and regulations that govern foreign futures markets for decades in an effective way. The second determinant will be whether individual speculators will be allowed and

given protection to "speculate in stocks." Doubtlessly, speculators serve as lubricant for the market. If there are no activities of a large number of individual speculators, but only hedging activities conducted by legal persons for value-preservation purposes, there will never be an active futures market. The third determinant will be whether there will be similar reform of the fiscal, taxation and financial systems, and cooperation of government departments. The existing fiscal contract system has resulted in a market system that separates local interests and the artificial blocking of the flow of goods; therefore reform must be continued. In addition, the delivery of goods has to be ensured by railway and transportation departments.

INDUSTRY

Roundup on Electronics Industry

OW0506191092 Beijing XINHUA Domestic Service
in Chinese 0811 GMT 5 Jun 92

["Roundup" by XINHUA reporter Gu Honghong (7357 3163 3163): "The 'National Team' of Electronics Industry Sets the Main Beam in Place"]

[Text] Beijing, 5 June (XINHUA)—"Having looked around from place to place for seven or eight years, I have now found a genuine partner in cooperation." This was said by the president of a world renowned electronics corporation after signing a cooperation agreement with the China Electronics Industry Corporation.

In China, there are some 3,200 electronics enterprises that produce well-known brand items and tens of thousands of enterprises that produce lesser known goods of inferior brands, some of which are state-owned large- and medium-sized enterprises. All these enterprises constitute a scattered force, with each enterprise developing in its own way. As a result, investment type [tou zi lei 2121 6327 7352] electronics products—which are a symbol of the level of the entire national economy as well as the electronics industry—are in a slump. In 1991, investment type electronic products only accounted for 14.3 percent of the electronics industry, much less than the one-fourth in Japan and the United States.

In June 1991, the electronics industry's national organization—the China Electronics Industry Corporation—was established in Beijing and started to take up the main responsibility in developing the electronics industry. Since then, the electronics industry has entered a new stage of close coordination in tackling key projects.

Under the coordination and direction of the China Electronics Industry Corporation, scores of backbone electronics enterprises with tens of thousands of capable workers have been tackling 42 key projects in six categories with significant results and have achieved breakthroughs in 23 key projects. They have for the first time

changed the situation in which foreign firms dominate the market for investment type electronics products in our country.

Electronic systems engineering for the modernization of transportation is considered a symbol of modernization of the electronics industry of a country. This category includes air, port, expressway, railway, and city transport control systems. Most of the items for those systems can be produced in our country. Within the scattered situation, however, no enterprise could assume the production task for the entire system. During the "Sixth Five-Year Plan" and "Seventh Five-Year Plan" periods, the state spent more than \$30 million to import items for air traffic control systems alone. After its founding, the China Electronics Corporation first tried to research and manufacture air traffic control systems, including a new type of radar, computerized aviation guiding equipment, and electronics equipment for gathering meteorological data. Since the No. 1 air traffic control system was put into operation in March of this year at Jinan Airport, it has helped prevent three dangerous accidents. Now this achievement has won the state's first prize for major technological equipment. The No. 2 air traffic control system has also been produced. Meanwhile, the demonstration of more than 50 items for air traffic control system has been completed, and those items will be produced in the next three years. In this way, our country will be able to establish a nationwide air traffic control network. In international bidding for a navigational control system at Tianjin Port, the China Electronics Industry Corporation also achieved success in making a tender.

The development of electronics systems, including those for controlling the processes of power generation and coal and oil production, has been one of the most significant technological revolutions of the energy industry in this century. The China Electronics Industry Corporation has also made significant headway in this area. A computer-controlled system for regulating power loads has been in use in the power grids of such large cities as Tianjin, Chongqing, and Guangzhou. A numerical-controlled system for recording oil well information—a system nicknamed "talking electronic drill bits"—instantly increased drilling efficiency by five fold. The supply of dozens of such bits to oil departments has conserved some \$10 million of foreign exchange. Electronic navigation equipment supplied by the corporation is very popular among oil workers in Tarim. In the past, whenever an oil reserve was found, oil workers would mark the location with a stake, which would likely be buried by sand after a sandstorm. Because of the electronic navigation equipment, oil spots can be easily located by oil workers.

The development of applied electronics systems has been one basic project of the China Electronics Industry Corporation, and the corporation has accomplished a great deal of work in this regard over the past year. It has now basically completed for RENMIN RIBAO a system

for indexing news information and the system of transmitting newspaper pages through satellite. So far, 15 transmission stations have been opened for operation. The first-stage project of construction for the People's Bank of China a system of transmitting data by satellite is about to be completed, and 150 ground stations are in operation. Over the past year the corporation has also completed building popular models of medical electronic equipment worth 200 million yuan.

One responsibility of the China Electronics Industry Corporation is to represent China's electronics industry to compete on the international market. Guided by the strategy of diversifying exports, the corporation has achieved exceptional success in the past year in developing the market in neighboring countries and Eastern Europe. It has also accepted projects of building systems of surveilling and controlling power stations, television transmission stations, satellite ground stations, digital microwave telecommunications, urban and rural telecommunications networks, and radio broadcast stations in Japan, Burma, Laos, Mongolia, and Vietnam. The many international bids it has won at home have also changed the nation's image that its electronics industry is unable to compete internationally.

Speaking on the corporation's development, Wang Dianfu, chief economic manager of the corporation, said: As the representative of China's electronics industry, the corporation not only will continue to undertake the country's major electronics projects and take part in international competitions, but also will play an important part in expediting the technological development of the entire electronics industry and in serving as the vanguard of the nation's electronics industry.

Building Material Industry To Promote High Technology

*OW0307090592 Beijing XINHUA in English
0821 GMT 3 Jul 92*

[Text] Beijing, July 3 (XINHUA)—China's building material industry will make efforts to promote development of high technology to double its production value in the next 10 years, today's ECONOMIC DAILY reported.

The industry has put priority on cement and glass products. It will build five bulk cement ports and 16 cement plants to gradually set up a system of bulk cement production and shipment in order to expand exports.

It will speed up manufacture of high-quality glasses including joint ventures in Dalian, a coastal city in northeast China's Liaoning Province. The value of glass production is to be doubled in the Eighth Five-Year Plan period (1991-95).

Wang Yanmou, director of the State Bureau of Building Materials, stressed that the industry will adjust its investment orientation, expand reform and put more into scientific research for added value products.

State Approves 60,000-ton Polyester Project in Hebei

SK2906153892 Shijiazhuang HEBEI RIBAO
in Chinese 22 May 92 p 1

[Text] The State Planning Commission recently approved the recommendation for building the Shijiazhuang 60,000-ton polyester project, a key project of Hebei Province during the Eighth Five-Year Plan period. With a total investment of 800 million yuan, this project will produce some 40,000 tons of short polyester fiber annually upon completion. It is planned that the construction of this project will start in 1993 and finish by the end of 1995. Upon completion, this project will alleviate the province's shortage of textile raw materials.

TRANSPORTATION

Ministry Launches 'Extensive' Reform of Railways

HK2706032592 Beijing CHINA DAILY in English
27 Jun 92 p 1

[By staff reporter Xie Yicheng: "State Bid To Get Rail System on Right Track"]

[Text] The Ministry of Railways has launched an extensive reform of its passenger transport system in a bid to improve the quality and efficiency of its service to railway travellers.

Starting from next Wednesday, every passenger can be assured of the right seat on outward and return journeys on seven more long-distance express trains.

This will be guaranteed by issuing tickets that correspond with seat numbers for express trains from Beijing to Nanning, Chengdu, Dandong, Fuzhou, Kunming, Urumqi and Dalian.

The move is designed to prevent train overloading and guarantee the safety of long-distance passengers (those travelling more than 1,000 kilometres), whose numbers in 1991 were up by 9.6 percent on the figure for 1990, with this trend continuing.

A similar policy has been running since 1985 for express trains from Beijing to Guangzhou, Harbin, Qiqihar, Xian, Wuchang, and Shanghai and from Shanghai to Urumqi.

In July and August, the ministry will put an extra 17 outward and return journey long-distance trains into temporary operation to accommodate college students and government employees travelling during their summer vacations.

"We are also ready to change certain slow trains into express services and extend the operation length," said Zhou Zhenqing, Vice-Director of the ministry's Transportation Department.

The adjustment is expected to solve the headache of passengers cramming long-distance trains while leaving slow, short-journey trains half-empty.

"A growing number of short-trip travellers would rather take the bus, because it's more flexible than the train," explained another official with the department.

For instance, commuter trains carried 120 million people last year, a decline of 46 percent over 1984.

"But the train remains the most feasible choice for the bulk of business people and tourists taking long trips," he added.

He referred to the fact passenger dispatch volume by plane in a whole year equaled that travelling by train in two days.

On average last year each train passenger travelled 300 kilometres, as against 275 kilometres in 1990.

To satisfy the needs of train users, the ministry will increase the number of sleeping cars, cut hard-seat cars and increase the number of carriages.

Zhou revealed that a new timetable will come into effect from next April, when two sleeping express trains will run from Beijing to Guangzhou and from Beijing to Shanghai.

Heilongjiang Opens Passenger Bus Route to Russia

SK0107125492 Harbin HEILONGJIANG RIBAO
in Chinese 20 May 92 p 1

[By reporters Liu Ming (0491 7686), Jin Yongzhe (6855 3057 0772), and Li Yongji (2621 3057 4764): "Suifenhe City Opens Highway Passenger Transport With Russia"]

[Text] At 0900 on 19 May, a jumbo bus from Russia's Pogradichnyy Kray crossed the border and was driven into Suifenhe City. Thus, the international highway passenger transport between Pogradichnyy Kray and Suifenhe City, which had been under development for a long time, has been formally opened.

Along with the development of reform and opening, the number of passengers entering and exiting Suifenhe City has increased. The pair of trains running from opposite directions between Russia and China cannot satisfy the demand of so many passengers. The main highway of Suifenhe City is connected with the Russian highway at the border line and is in good condition for transportation. Through the common efforts made by both sides' governments, transport departments, and joint-inspection departments, an agreement has finally been reached. Both sides have decided through consultations

to have the Chinese side provide bus service at 0900 every Monday, Wednesday, and Friday to the Russian kray and return service at 1300 on these days, and to have the Russian side provide bus service at 0700 every Tuesday, Thursday, and Saturday to the Chinese city and return service at 1330 on these days. According to

statistics, the number of domestic and foreign passengers on buses each day may reach 80 after the formal opening of highway passenger transportation. This will greatly relieve the strained situation in which passengers entering or exiting the country encounter great difficulties in using transportation.

New Law, Order Problems Inside Enterprises
92CM0333B Beijing RENMIN GONGAN BAO
in Chinese 21 May 92 p 3

[Article by Wang Dajun (3769 1129 6511): "New Law and Order Problems Inside Enterprises"]

[Text] At present, many of China's state-owned large- and medium-size enterprises are earnestly implementing the "Enterprise Law" and thoroughly turning themselves into self-managed enterprises, changing the management system, and breaking up "the iron rice bowl, iron armchair, and iron salary," and boldly and concretely exploring new management systems and mechanisms. In the process of enterprise reform, it undoubtedly brings out certain new law and order problems. Where can these problems be seen? Not long ago, I went to Shanxi Province and analyzed the situation there.

1. Cases of enterprise managers being insulted, intimidated, injured and avenged are increasing. In implementing enterprise reform, some workers vent their anger at enterprise managers because their own benefits are being jeopardized, or their desires are not being realized. Some workers call the managers names and beat them up. Others smear feces and urine on the managers' doors. Still others threaten the managers by delivering explosives to them. According to statistics from Shanxi Province's concerned departments, from January to March this year, over 30 such cases have been reported in the province. When the breaking up of "the three iron's" is carried out across the board, such cases can be expected to increase.

2. Cases of destruction to production facilities are increasing. Some workers who have not been selected for retention are dissatisfied and emotionally upset. Some individuals, given the opportunity, sabotage production facilities, or steal the equipment to avenge society and vent their dissatisfaction. Such cases are happening in succession, and the damage is considerable. For example, at the Taiyuan Rubber Factory's hydraulic press workshop, a worker named Ren, after failing to be selected, twice tried to insert an iron bar and tube into the electric machinery to ruin the equipment, but was found out in time.

3. Cases of stealing, cheating and embezzling the enterprise's assets are increasing. In the last few years, this type of case has been a prominent problem in enterprises. After breaking up "the three iron's," some workers then steal, cheat and embezzle the enterprise's assets to get even and make up their economic losses. In the first quarter of this year alone, 140 tons of iron and steel were stolen from the Taiyuan Iron and Steel Works valued at over 70,000 yuan. At the Wenxi County Paper Factory, a temporary worker named Liu stole the copper conductors of electric generators worth hundreds of thousands yuan, and caused the factory great losses when normal production was held up for a long time.

4. Tendency of the masses to complain and petition higher authorities is increasing. Shanxi Province has a total of 284 large- and medium-size enterprises. According to surveys, after selecting the workers for retention, some 130,000 to 150,000 workers will be considered surplus, and worker income will be readjusted. Many enterprise middle-level cadres are waiting and hoping; some workers are worried about their future. Individuals who are used to a guaranteed living openly brag: "Whoever dares not select me, and not give me a living, I will also not let him have his living." Some people with other objectives in mind encourage these individuals to complain and petition to higher-ups, and the more such cases the more salient the problem.

5. Cases of economic swindling are increasing. Some newly established enterprises, particularly the village-run ones, due to lack of management experience are easily cheated and taken advantage of by criminal elements. This year alone, Shanxi's public security department has taken on at least 685 such cases, with monetary value totalling tens of million yuan. As a result of intensified enterprise reform, involving movements of people, capital and goods, economic crimes, particularly swindling activities will certainly increase.

6. Law and order problems in rural areas are increasing. Especially of note is that the increase in criminal cases has not abated, but that serious crimes such as murder, armed robbery and rape constitute a large proportion of the criminal cases. Criminal activities of theft and sabotage of rural hydroelectric facilities and of raw materials for production of factories and mines have come to the fore; and despicable social phenomena such as the kidnapping and selling of women and children have continued to spread. In addition, beginning this year, cases of peasants going into the cities to commit crimes have notably increased, and this is a new criminal trend.

College Graduate in Short Supply

92CM0333A Hong Kong TA KUNG PAO in Chinese
20 May 92 p 6

[Article by An Fu (1658 1318): "Demands for Personnel Reach Peak Period"]

[Text] Job assignments have begun for current graduates of China's higher educational institutions, and according to State Education Commission's sources, China's need of college graduates this year has increased sharply. Statistics indicate that a total of 564,000 students graduated this year from China's regular higher institutions, 26,000 students graduated with advanced degrees, and some 60,000 self-support students and graduates from the Radio and TV Broadcast University within the scope of the national plan. It is said that except for a minority of graduates who specialize in literature and history, the demand has sharply increased for those majoring in various liberal arts, physics and engineering fields.

Especially in demand are the engineering graduates. For example, the ratio of graduates of the Qinghua University's precision instruments department to jobs in this field is about one to eight. The ratio of graduates to jobs is one to 10 for graduates of the Nanjing Dongnan University's mechanical engineering, industrial automation and computer science departments, while the ratio reaches one to 18 for graduates with majors in industry and trade from the Shanghai Industrial University. Although job assignments for graduates of many engineering institutions are completed, hiring work units are still knocking at the door asking for new graduates. A responsible person of a higher educational institution expressed the view that China is now entering a new period of rapid economic development, the crux of economic competition is after all competition for qualified personnel, and therefore a new period of peak demand for trained personnel is emerging in China.

Among the liberal arts graduates, those specializing in finance, journalism, law, foreign language have good job prospects. As a source in the concerned department of a university for foreign economics and trade put it, "demand obviously exceeds supply" for graduates of their university by an order of magnitude of 10 to one. The university source pointed out that one of the reasons for the increased demand is that, along with the quickening pace of economic reform, many large- and medium-size state-operated enterprises are now authorized to export and import, and therefore urgently need a large number of personnel trained in foreign trade. A responsible person of the China People's University journalism department explained that job assignments this year have gone "particularly well." In the last two years, some graduates did have difficulties getting suitable jobs assigned. Some of these graduates had to "change their occupations" and took jobs handling documents and correspondence in party and governmental units and even in companies and restaurants. But this year, over 90 percent of the journalism graduates have been assigned jobs in news units such as XINHUA SHE, RENMIN RIBAO, CHINA DAILY, and CCTV.

This year's job assignments also went smoothly for the 200 graduates of the Beijing University law department, which is about 10 percent of the university's graduates. It is said that a sizable number in the class volunteered to take jobs at the Shengli Oil Field, the Beijing Coke Factory and other state-owned large- and medium-size enterprises and legal departments of basic-level units, and over one-fourth of the class were assigned to various types of companies to handle legal advisory work or contract management. This reflects the fact that in China's economic activities, the people's understanding of the law has gradually increased, and personnel trained in the law are beginning to be in demand for employment.

Under the background of China's firmly maintaining the policy of reform and opening up, college graduates in foreign languages are welcome by employers. After the 19 August event of last year, various republics of the

former Soviet Union have established their independence, and this year, a great gap has appeared in the supply of Russian language graduates. Concerned departments, suffering from the lack of adequate Russian language personnel, have even searched out graduates with Russian major from self-support students at Northeast Jilin University, and three to four work units "fight over" these graduates.

According to estimates by concerned departments of the State Education Commission, college graduates of the 50's and 60's have retired or are in the process of leaving their work units. At present, the "personnel gap" in all units has become apparent, and knowledgeable people in all sectors of society are more than ever aware of the urgency and importance of attracting qualified personnel. A State Education Commission official stated that in assigning jobs to graduates of tertiary educational institutions, the graduates will be encouraged to "enter into the major battlefield of developing the national economy" based on their own talent, and needs of the country.

Phenomena of Resorting to Deceit Analyzed

92CM0334A Beijing ZHONGGUO SHEHUI BAO
in Chinese 22 May 92 p 3

[Article: "Analysis of the Phenomenon of Fraudulent Practices"]

[Excerpt] [passage omitted] At present, this kind of behavior is just like an epidemic. It is multiplying and spreading in some departments and units, especially among units at different levels where there are relationships of subordination. Some submit false reports on their performance to win glory by fraud. Some put on false fronts to cover up "family scandals." Some talk big, and tell lies to retain their "official posts." What is behind this phenomena?

Winning Honor and Concealing Crimes by Fraud

Some enterprise units have serious losses, and are heavily in debt, to the point where their capital is not sufficient to cover their indebtedness. But to retain, or fraudulently to win honor, they employ any means, fair or foul, to represent their losses as surpluses, resorting to every trick in the book to conceal the true situation. Actually, this is a case of "having an ulterior motive." We can get a rough idea of what is really going on from the revelations gained by the law enforcement agencies in a certain city during two years of investigating 29 suspects for economic crimes, all of whom had received various honors and titles. Of these 29 suspects, eight were provincial or city-level "model workers," and 11 were awarded such titles as "capable people" and "star entrepreneurs" by related city and county departments; the remaining 10 had also been honored in their own industry as "consistently in the forefront," or "consistent pacesetters." Although the individual situations of these people are all different, still it is startling that they

all have one thing in common, namely that they won their honors by fraud, and then used their ill-gotten honors as "camouflage," so they could wantonly indulge in corruption, bribery and other criminal activity.

A certain Mr. Liu, director of a supply and sales cooperative, was once honored as a "capable person" and "a model" in carrying out reform by his province and city supply and sales network, and the trade press reported all his "achievements" one after another. Little did they know that this Mr. Liu's so-called reforms actually caused the unit to lose 1.5 million yuan. To make himself look good, at the same time he concealed the truth about the losses, he actually reported money raised from the masses and loans from the state as profits, and falsely claimed that profits were rising year by year. At the very same time Mr. Liu was being "hung with honors," he brazenly engaged in criminal economic activity, such as corruption and bribery. He obtained more than 17,000 yuan from corruption and bribes in less than a year.

Committing Crimes by Mixing Up Lies With the Truth

At many units, the issuance of false invoices and false receipts, and the reporting of false profits, has become an open secret. Of course, some of this is done under "compulsion" from related departments; and some is certainly done in desperation, because one or another of a unit's items of expense are excessive and payment is impossible. In that case, this is at most a violation of fiscal discipline. But it also cannot be denied that there is definitely a small number of lawless people who take the opportunity to mix lies with the truth and fish in troubled waters.

Of the 60 management units subordinate to a certain medium-sized enterprise, nearly 40 were found, after an audit by the auditing department, to have falsified records, and the total amount of money involved exceeded 3 million yuan. One of these units, in order to pay out more in bonuses, understated its expenses, overstated its reserves, and falsely claimed profits of 1.07 million yuan. As a result, 430,000 yuan in bonuses were promised but not paid. A certain Mr. Meng, the person in charge of that unit, obtained nearly 20,000 yuan in illegal bonuses in only two years.

Covering Up Scandals, Conniving in Crime

A small number of unit leaders, because they are influenced by selfish departmentalism, obey the ancient admonition to keep family scandals out of the public eye. In dealing with problems that appear in their own unit, even problems of serious economic crime and illegal activity, they do not take the correct attitude and move to solve the problem, or aggressively take the initiative by reporting the matter to the political departments and cooperating with them in stern investigation and punishment. Instead, they put up all sorts of false fronts and cover-ups, temporize, and attempt by every possible means to defeat inspections by higher authorities and discipline by related departments. They protect their

associates when they can, they put off action when they can, and they turn big affairs into small affairs and small affairs into nothing. The result of this policy is doubtless to abet evil by tolerating it, and to connive in criminality.

A certain Mr. Hu, a clerk at a county fuel company, used the opportunity afforded by the allocation and shipping of coal to make unauthorized sales of more than 9,000 tons of his unit's coal, misappropriating more than 1.14 million yuan in public funds. Moreover, he bought a classy imported luxury car for his own use with his ill-gotten gains. The unit leaders got wind of this, but in order to safeguard the unit's reputation, they not only did not take the initiative to report the case, but on the contrary, they fabricated various falsehoods to cover up the fact that a crime had been committed. Because they did not promptly report the case for investigation and punishment, the result was that more than 4 million yuan could not be recovered, so that the collective suffered heavy economic damages.

Evading National Taxes by Falsifying the Truth

Individual enterprises pass themselves off as collective enterprises, and taxable units display the insignia of tax-free units to achieve the goal of tax evasion. This is another new situation where economic crime is carried out under the cover of deception. A small number of lawless economic managers "dress up" what is really an individual enterprise in the guise of a collective, or else perpetrate a fraud and pass it off as a school, a welfare organization, or another tax-free unit to carry out economic activities. As a result, "when the false becomes true, then the true is also false." What should be protected cannot be really protected; on the contrary, illegal activity acquires a "magic charm" that drapes it in a cloak of legality.

In the second half of 1991, tax authorities in a certain prefecture carried out a close investigation and clean-up of all the enterprises under contract in its jurisdiction, comparing them with the five criteria for collective enterprises. Of the 43 enterprises investigated, nine really had contracts as individual enterprises, even though they had licenses to operate as collective enterprises and enjoyed the tax preferences accorded collective enterprises. Most accounts were in disorder, income and profits were inaccurate, and there was serious tax evasion. Through investigation, more than 670,000 yuan in delinquent taxes were recovered. On average, each enterprise evaded paying more than 70,000 yuan in taxes.

Fraud and deception, by the magnitude of the harm it causes, and the extent of its spread, has become a social phenomenon that cannot be ignored. The main reasons are:

1. **Bureaucracy opens the door to charlatans.** At some institutions, there is a serious problem of bureaucracy in the way the supervisory departments and higher-level organizations do their work. Their understanding and

grasp of the feelings of their subordinates is not derived from penetrating, first-hand investigation. Instead, they are wrapped up in listening to gossip and reading reports. When choosing advanced workers and model workers, they often simply base their decisions on the impressions of a few leaders, and on social connections. Doubtless this provides charlatans with an opportunity they can exploit.

A certain Mr. Wu, director of a supply and sales cooperative, caused his unit to lose more than 3.2 million yuan during his several years in office. Moreover, he personally took the lead in watching obscene videos, and engaging in unhealthy activities, economic crime, and illegal activity. The masses reported this early on, but he relied on his silver tongue to win the trust of his superiors by telling them what they wanted to hear. They were willing to practice deception on his behalf, inventing accomplishments for him to claim and testimonials from his subordinates. As a result, each level reported to the next, and each level deceived the next, so that a corrupt person, who should have been subject to party discipline and the law of the state, actually received the remarkable honor of being named a "model worker" for his province. Now that the case has come to light, this enterprise that has lost several million yuan and is on the verge of bankruptcy, is not only a marvelous satire on this so-called province-level model worker, but is also a forceful criticism of the bureaucratic thinking of the related leaders at various levels.

2. Formalism provides charlatans with a breeding ground. Now, beside holding meetings, the most frequent activity of departments at all levels is various kinds of inspections. There are financial inspections, tax inspections, and discipline inspections. In terms of time, there are monthly inspections, quarterly inspections, and annual inspections. In terms of methods, there are self-inspections, mutual inspections, surprise inspections, etc. By right, all these inspections should have some effect on the work of the industrial departments in terms of guidance and oversight. Especially, they should have power to restrain, raise awareness of, and punish fraudulent behavior. But what is discouraging is that now

most inspections down to the basic level exist in name only. It is just like the leader of an enterprise saying in jest: "We have inspections all the time, but we don't find any problems; we eat, drink, laugh, and say How are you? I'm fine! Everybody's fine!" Therefore, this kind of perfunctory inspection not only wastes manpower, physical resources, and time, but also emboldens the charlatans. At the same time, it reassures those lawless people who take opportunities to commit various kinds of economic crimes, and confirms their criminal mentality.

3. Selfish departmentalism gives charlatans a loophole to exploit. Briefly, selfish departmentalism is to start everything from the interest of one's own department or unit. At present, what shows up most conspicuously is that some unit leaders in order to maintain the honor, reputation, and influence of their units, take the lead in fakery. Some pressure financial and accounting personnel to issue false invoices or report false profits. According to my investigation of the 11 major money-losing enterprises in a certain county, I discovered that eight of them had revealed the true facts of their losses only after their problems with internal economic crime had come out in an investigation; before that, they had always been "profitable" units. This practice of showing people a false image (profitability), and concealing the true situation (losses) is now, objectively speaking, an important factor in the causation and spread of economic crime.

4. Egoism gives charlatans the green light. By investigating and disposing of many cases of economic crime, involving corruption, bribery, and so forth, we can draw the conclusion that there is a pattern. In units where fraud is a serious problem, and many cases of fraud have been discovered, the leaders are usually egoists whose hearts are full of selfish desires. Perhaps they have received "favors" from certain people, and so they turn a blind eye to fraud; or to prevent damage to some personal interest of theirs, they will be lenient with fraud they clearly know is going on; or because they have been coopted by some small consideration, they knowingly serve as a "protective umbrella" for the charlatan; or they may even, being unable to resist temptation, accept bribes, collude with criminal elements, and walk the road of criminality. [passage omitted]

Li Teng-hui Fails in Constitutional Reform

92CM0337A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 273, 6 Jun 92 pp 28-29

[Article by Szu-ma Wen-wu: "Eight Ropes Bring Li Teng-hui's Prestige Down to the Ground"]

[Text] Constitution-making and constitution-amending are both mainly the question of distribution of real political force. This time, the Kuomintang [KMT] controlled three-fourths of the seats, but there was no internal consensus. Even though the amending of the constitution was done by one party behind closed doors, the lack of internal consensus created an uncontrollable monster of politics on constitutional issues, and sowed seeds for even more political conflicts in the future. The KMT will pay a price for that in the year-end Legislative Yuan election. At the same time, Li Teng-hui, in his double role as both the president and the chairman of the ruling party, not only encountered severe challenges to his leadership capabilities, but also suffered quite a lot of damage to his prestige and image.

The results of this round of constitution-amending and the National Affairs Conference of two years ago represented two extremes. The National Affairs Conference led to high expectations for democratic constitutional government, but the process of amending the constitution in the National Assembly brought huge dark clouds and potentials for disaster. The National Affairs Conference added greatly to Li Teng-hui's prestige in society. Even the Democratic Progressive Party [DPP] was almost disarmed, and acquired a Li Teng-hui complex. However, the current round of constitution-amending led to a fall in Li Teng-hui's prestige, and has also liberated the DPP from its Li Teng-hui complex.

Society-wide, the state of public opinion provided a very advantageous situation for democratic reform. But ironically, this round of constitution-amending provided a stage for KMT conservatives and for the local forces. On the other hand, the enlightened and progressive forces in the party did not have opportunities to display their strengths. Surely, the conservative forces and the local forces had different intentions. Although conservative, the conservatives highly value structure and system. However, the local forces just try to have their way, by making full use of their financial power. Thus, nothing really good can be said about them. Unfortunately, this ad hoc session of the National Assembly became a stage for the performances given by local KMT politicians. They were responsible for the greatest part of the farce, which was full of nonsense and absurdity.

Nevertheless, those local KMT politicians were all trained by the KMT. On the other hand, nondistrict-based National Assembly members with enhanced party spirit also got their seats according to party plans. In the past, the KMT depended on those people for votes and to maintain its ideology. When the KMT tried to use these people to achieve constitutional reform, the result is the situation we see today.

All this shows that this kind of behavior is in the nature of the KMT led by Li Teng-hui. This naturally reflects the difficulty of reform. However, the easily foreseen difficult situation became all the more difficult, because of the absence of a consensus in the party at the beginning of the process, a failure to coordinate actions and to achieve mutual understanding, and a lack of overall planning.

Changing the mode of presidential election from an electoral-college system into one of direct popular election may have been a focal point in Li Teng-hui's blueprint for amending the constitution. He hoped to build a pillar for Taiwan's democratic politics by introducing the systems of popular election for the provincial governor and the president. Because up to now, neither the president, nor the Executive Yuan president, nor any minister, nor any governor or mayor is elected by the people. No one is directly responsible to the electorate. If such a situation is allowed to continue, Taiwan would never have democratic politics. Therefore, only by establishing a system of popular election for the president will it be possible to have an opportunity to introduce structural changes in the structures of the state and the government. It will be necessary to use such a lever, if there is to be a rebirth of Taiwan's political system, entailing large-scale changes.

In their view, with the introduction of direct popular election for president, the role of party headquarters would change immediately. The party would become election-oriented. As a result, so-called political seniors or big shots who often stir up trouble would be pushed aside. In the future, only the president, directly elected by the people, would be qualified to represent Taiwanese society, and assume the role of leadership on such matters as foreign affairs, military affairs, and policies on the mainland. In the future the constitution could be amended again and again. There would be a continuous process of amending the constitution, until a democracy was established.

But to ensure success in regard to this focal point of direct popular election, on other issues Li Teng-hui made important concessions that overshadowed anything that was achieved on the focal point. Even on the issue of direct popular election, in the face of overly large differences, he also compromised by agreeing to shelving the matter for the time being to avoid a split in the party.

In fact, in view of the state of public opinion in Taiwan, and the ruling party's advantageous position in terms of the control of the media, it would not have been too difficult to build public sentiments in favor of direct popular election if Li Teng-hui had manoeuvred skillfully. However, he failed to fully consult any of his key advisors. They not only were placed in an awkward position, but felt distrusted. Powerful institutions in the media that had always supported the KMT party center were also critical of this situation. On the other hand, some less powerful institutions in the media and opposition parties who had usually been critical of the KMT

expressed their support for Li Teng-hui, but ended up hurting Li Teng-hui instead. Such a situation of reversed roles had a lot to do with the leadership exercised by the party center.

Sung Ch'u-yu has become the common target of criticism. He had extensive exposure on television. But the print media extensively carried criticisms of him. He has been good at handling the media, but now finds it difficult to defend himself. The party newspaper that was under his guidance was not well regarded in the National Assembly. The newspaper also had big problems with regard to the staff's knowledge base, capabilities, and efforts at promoting mutual understanding. They worked very hard, but the carpenter who produced the most wood scraps may not necessarily be the best carpenter. High-ranking party faithfuls were not of high caliber. As a result, many people have come to question Sung's wisdom on personnel matters.

Surely, there is no question that Sung Ch'u-yu enjoys the trust of Li Teng-hui who has tended to give Sung important assignments. But many of Li Teng-hui's supporters are rather critical of Sung Ch'u-yu for his nominating a whole bunch of conservatives who have turned out to be opponents of Li Teng-hui. Some of those critics are of the view that Sung Ch'u-yu played a balancing game. But others argue that he was engaged in fence-riding to leave himself an option; otherwise, how could have everything turned out as it did?

Sung Ch'u-yu's supporters of course argue that Sung has been unjustly blamed. As Sung had yet to cultivate his own followers, he could only select people from those who were available. Those people were a legacy that he had to carry over; he had little choice.

In the party, the discontent against Li Teng-hui was rather overt on the part of many old-line party workers. Moderates criticized Li Teng-hui for having only the charisma of a leader, but not leadership capabilities. Radicals believed Li to be power-hungry and somewhat petty.

Many who were dissatisfied with Li placed their hopes on Hao Po-tsun. As a result, in the process of amending the constitution, there occurred proxy wars waged by groups having their own masters. The proposals on amending the constitution were also a rather typical product of the rule of man. It was as if the role of the constitution had been to clarify the private relations between Li and Hao. As a result, work on all the related clauses was shelved.

The KMT's ideology—the doctrine of five-power constitution—still casts a large shadow over constitutional reform. Conservatives would, from time to time, speak in the grand name of Sun Yat-sen. Having done their work, they even went to Sun Yat-sen's Mausoleum in Nanjing to present to Sun Yat-sen the successes achieved in amending the constitution. Both the Three Doctrines

of the People and the Founding Father's Thought have become instruments to be used in waging power struggle and in obstructing reform.

Even communism has been revised repeatedly, or even renounced; but the disciples of the Founding Father believe that the Three Doctrines of the People are fixed and that no change is allowed. It is truly an odd scene for a democracy that forces are still fighting each other over isms.

In view of Li Teng-hui's ideas, experience and character, he must have been deeply disgusted with the whole ideology, very tired of the KMT's old-line political manoeuvres, and full of determination to reform the existing political system. However, the results of this round of constitution-amending were the opposite of what he had wanted. Ideology remains a stumbling block in the process of reform. Political manoeuvres remain the game played everyday. More importantly, the National Assembly which should have been abolished has been given even greater power. Whether the electoral-college system or the system of direct popular election is adopted in the future, the existence of the National Assembly will not be affected. Furthermore, from now on, it is likely to grow day by day and year by year.

The proposal for direct popular election, the proposal most important to Li Teng-hui, has yet to be adopted, but the National Assembly which the people have dreaded the most can now begin operation in the open, and can thus stir up trouble. In a sense, while benefits remain out of reach, bad things have already been brought about.

Now, there are great differences within the KMT. No one can control the situation. It may not be fair to place the blame entirely on Li Teng-hui and Sung Ch'u-yu for the bad results of this round of constitution-amending carried out by one party, the KMT, singlehandedly. Hao Po-tsun and other powerful members of the Central Standing Committee should also share the responsibility. However, as Li and Sung played the roles of director, screenwriter and leading actor all by themselves, then how can the responsibility for the resultant rotten picture be placed on those little local politicians who played the roles of clowns and other small roles?

Li Teng-hui: Political Genius or Ah Q

92CM0339A Taipei TZULI WANPAO in Chinese
29 May 92 p 2

[Article by Ch'en Cheng-nung: "Genius or Ah Q"]

[Text] Over the past two months, on television and in newspapers, one sees that at ad hoc sessions of the National Assembly if it was not the Kuomintang [KMT] party faithfuls who took the lead in fighting the Democratic Progressive Party [DPP], then it was the KMT members of the National Assembly who were fighting the KMT party faithfuls. In the end, the "party center's

version" passed. Thus, the constitution which should belong to everyone has become a "one-party constitution." Nevertheless, yesterday KMT chairman Li Teng-hui still claimed that this round of constitution-amending was "democratic in substance and procedure."

Even an elementary school pupil could understand the proposals on amending the constitution in this round. The "KMT's 21 proposals" made at the KMT's Third Plenum were greatly different from the "KMT's eight proposals." After the Supervisory Yuan becomes a non-elected body, there will no longer be "five powers." However, yesterday Li Teng-hui was still praising the KMT members of the National Assembly for "implementing the decision of the Third Plenum," and for maintaining the "five-power structure."

Li Teng-hui's expression of approval for the KMT members of the National Assembly may have been the only sound of applause amidst the widespread public criticism after the completion of this round of one party-controlled constitution-amending. I will not for the moment discuss whether Li's statement represented indulgence in self-admiration for the party behind closed doors, or Li Teng-hui's specially endowed insight. We can only say this VIP is as "extraordinary" as usual.

After appointing a party group on constitutional reform to study plans on amending the constitution, Li Teng-hui gave an "extraordinary" performance surrendering to the conservative forces in the party. The leadership style was also "extraordinary" in history by trying to overturn the decision on the proposal on direct presidential election by going through the side door instead of the front door. But as of yesterday, he still used such words as "democratic both in substance and procedure" to praise the members of the National Assembly for their performance which had been roundly criticized and held in contempt. If not "extraordinary," I really don't know what other words to use to describe him.

Surely, constitutional reform is a large, long-range project. But if one only tries to buy support from the KMT members of the National Assembly without building a consensus among the ordinary people, one still fails to reach his target even when capable of performing miracles. Li Teng-hui does not thoroughly inquire into why the media, political commentators, and subjects of opinion polls condemn, "in unison," the members of the National Assembly, but still holds on to his lofty attitude of "daring to be different from the masses." Such a head of state and party chairman, if not a genius, must be an Ah Q!

Both a genius and Ah Q are "extraordinary" people different from ordinary people. In Taiwan, both the establishment of order in politics and in the party and the transformation of the political structure depend on the leadership exercised by those high-ranking officials such as Li Teng-hui for progress through various stages.

We sincerely pray to God: Let Li Teng-hui the extraordinary become a political genius endowed with god-given talents, but not an Ah Q who does not face reality.

Cost-Effective Presidency Under Scrutiny

92CM0339C Taipei TZULI WANPAO in Chinese
21 May 92 p 2

[Report by Peng Lin: "Li Teng-hui's Salary Is Higher Than Bush's"]

[Text] Is the president of the Republic of China an emperor?

Amidst discussion on whether special presidential expenditures are too high, there occurred a debate among legislators of both the ruling and opposition parties about whether "the president of the Republic of China has become an emperor." According to legislators Ch'en Ting-nan and Lin Cheng-chieh, the expenditures are too high, and are 10 times that of the U.S. president. The president has thus almost become an emperor. Kuomintang [KMT] legislators struck back. In their view, since the country is in an extraordinary period, such expenditures are proper, and the use of the word "emperor" is an insult to democracy. They expressed regret over the use of such a word.

This morning the joint meeting of the Legislative Yuan considered the budget for the Presidential Office. There was 55.246 million yuan in the item of state affairs expenditures (all are to be presidential expenditures), including 14.4 million yuan for inspections of governmental, economic and military units as well as construction sites, 12 million yuan for entertaining domestic and foreign guests, 16.846 million yuan for awards and gifts of appreciation, and 12 million yuan for souvenirs for domestic and foreign guests.

According to Ch'en Ting-nan, the special presidential expenditures equal \$2 million, 10 times that of the U.S. president—\$200,000. The salary of the president—\$400,000 is twice the salary of the U.S. president—\$200,000. The special presidential expenditures are seven times as high as the presidential salary. According to Ch'en ting-nan, our national income is lower than that of the United States. Such high expenditures almost amount to the restoration of the imperial system. The president of the Republic of China has almost become an emperor.

Ch'en Ting-nan's use of the word "emperor" immediately aroused dissatisfaction on the part of KMT legislators. According to Ch'ai Pi-huang, the present situation in Taiwan is still different from other countries. The United States enjoys peace and prosperity. Perhaps, the special presidential expenditures do not have to be so high. But in Taiwan, some budgetary items that should be included in foreign affairs expenditures have to be included in the special presidential expenditures. Ch'ai Pi-huang emphasized: "To have more money does not make one an emperor." He said legislators can criticize

inappropriate uses of funds, but cannot call the president an emperor. He deplored Ch'en ting-nan's choice of words, and believes the use of the word "emperor" is a great insult to the democratic system and to the public.

Liao Fu-pen also said, the president is commander-in-chief of the three military services, often conducts inspections in the countryside, and visits troops on the front lines during the Autumn Festival and Spring Festival. Such inspections also take place in advanced countries. He and Ch'ai Pi-huang were thus both for approving the items in the proposed budget.

Later Lin Cheng-chieh came to the podium and spoke in support of Ch'en ting-nan, saying that Ch'en's argument was well-founded. He retorted: The United States enjoys peace and prosperity, but is the Republic of China a country at war? We have the Dragon Boat Festival and Autumn Festival, but doesn't the United States have Christmas? Lin Cheng-chieh said, the adoption of the budget was expected anyway, but the KMT legislators should not make ridiculous justifications that make people angry.

In addition, the opposition party also attacked the inclusion of the item of national-unification research expenditures proposed by the Presidential Office. Ch'en Ting-nan of the Democratic Progressive Party parliament group accused the National Unification Commission of being a secret body. Lin Cheng-chieh who had always advocated unification also attacked the National Unification Commission for still studying the reasons for having one China. Has not the government always advocated one China?

The government and the opposition continue to differ on these two items in the budget. In the end, the items were kept in the budget for the time being.

Premier's Efforts To Remold Political Image

92CM0336A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese 30 May 92 p 3

[Excerpt] Hao Po-tsun, head of the Executive Yuan, recently started to change his image. Some say that he is no longer harsh in his speech and stern in appearance. The change had made his style much different from what it was in the past. Perhaps many people have noticed that Hao's cabinet has changed from the 1990's "Public Security Cabinet" to today's "People's Livelihood Cabinet," and has changed his previous harsh image to today's gentle image. If these subtle changes are measured in terms of the present political environment, they are especially worth noting.

Some examples of Hao Po-tsun's recent behavior that has attracted attention include: Before Mother's day Hao gave a very moving speech carried by three TV stations about his thoughts on his mother. This behavior is rare among previous cabinet members. In addition, he paid a great deal of attention to vegetable prices and even walked to the vegetable market himself. The day after the

accidental fire in a children's tour bus Hao visited the family of teacher Lin Ching-chan who saved other people's life without thinking of herself. During President Li Teng-hui's second anniversary of assuming office, Hao, again on three TV stations, expressed his congratulations to the president. During the Central Executive Committee meeting of the Kuomintang [KMT], Hao led "hundreds of governmental officials and military generals" in giving their congratulations personally to President Li Teng-hui, expressing their continuing loyalty.

This obvious behavior clearly shows that he is again intentionally cloaking himself to receive the recognition of the middle class, and to lower the guard of insiders who favor direct elections.

Those who are close to Hao Po-tsun point out that he has no special political handlers to help him project his image, and he decides everything. In addition, Hao's concern for people's livelihood has for a long time been like this.

According to the disclosures of an important person at the Executive Yuan, every Friday afternoon since Hao Po-tsun became head of the Yuan, he makes the rounds of work units unless there are more important matters to attend to. While Hao may have his own opinion on the work units, he is not someone that is "isolated from the world" as some outsiders have described him.

Even though the Executive Yuan provided favorable reasons for the changes in Hao Po-tsun's image, there needs to be a probe into why at this particular time he started to change his image.

First, there is the "life expectancy" problem concerning Hao's cabinet. Last year many people predicted that Hao's cabinet, after old legislators originally from the mainland resigned, might not last after the end of this year and would probably succumb to the fate of being removed from power, if opposed by the main force of the Legislative Yuan, even though Hao might enjoy the support of the Democratic Progressive Party [DPP]. In fact, after the method of the presidential election had been changed, the pro-direct election people and the pro-appointing people almost started to seriously fight among each other. Although Hao Po-tsun's attitude was vague in appearance, his chief assistant Hsu Li-nung led the main offense of the pro-appointing people. The relationship between President Li and Hao became tense again.

Therefore, during recent political occasions, Hao Po-tsun has been compelled to refer to "President Li." On the 19th Hao Po-tsun publicly congratulated Li Teng-hui on his second anniversary of holding office. All these signs show that Hao intends to take positive steps to ease the tense relationship between himself and Li since the third party meeting of the Central Executive Committee of the KMT.

The News Bureau chairman Hu Chih-ch'iang explained that Hao Po-tsun's public speech on TV was not intentionally arranged. He said that the show on the 19th that was broadcast on the three TV stations reporting Hao Po-tsun's congratulations on Li Teng-hui's second anniversary of holding office resulted from the fact that one TV station initially requested an interview with Hao Po-tsun during the filming of the show on "Special Program of Congratulations on President Li's Second Anniversary." When the domestic department submitted the station's request to the higher authorities, the News Bureau refused the station's request to avoid other problems from developing. However, Hao considered this interview meaningful, thus it was specially taped by the news bureau itself. The film was then sent to the three TV stations respectively so that they could decide whether or not to broadcast the interview. The words in the interview were chosen by Hao Po-tsun himself without the assistance of any speech writers.

Hu Chih-ch'iang pointed out that Hao Po-tsun's emotional speech on Mother's day was also first requested by a TV station hoping to tape Hao's moving words. At that time based on the principle of equal access, the News Bureau allowed the three TV stations to conduct the interview together. However, reporters from the three TV stations asked their own separate questions, then the stations individually broadcast their own parts of the interview. This led to the criticism of Hao's expression of "warm feeling." Thus, to prevent this kind of situation from happening again, the Executive Yuan decided to make the film itself, and provide it to the three TV stations for them to choose.

The reason why Hao's cabinet gradually changed its style from the "Public Security Cabinet" to the "People's Livelihood Cabinet" was, of course, to please the people. However, it was the pressure of the presidential election at the end of the year that caused this initiative to please the people. From the experience of Yu's cabinet that was dissolved due to his interference in the election process, Hao Po-tsun should not forget Yu's lesson even though Hao's popularity is not weak.

The main emphasis of the policy that Hao Po-tsun is promoting this year concerns people's livelihood. The emphasis has greatly increased over that of last year, and is apparent not only from the attention of the media, but also from the focus of the policies. For example, attention focused on land value, housing costs, vegetable prices, and the establishment of child care facilities in industrial areas is quite different from last year when Hao involved himself solely in political affairs. The highly sensitive political fights over the "17 April," "DPP Clause for Taiwan Independence," and "Military Conference" to "Abolishing Article 100 of the Criminal Law" and "Oppose the Public Reviewing of Troops," have placed Hao Po-tsun in the middle and caused him to become the central figure of the storm.

Since the third meeting of the National Assembly the pro-direct election faction and the anti-direct election

faction have hurt each other as a result of their political fights, although it appears that Hao Po-tsun has had the sense to avoid these sensitive political problems. During the National Assembly meeting, it was demanded that there be a change in the cabinet. However, Hao didn't take any action until today. The elimination of the black-list, the law against peaceful demonstration, and the releasing of political prisoners was accomplished by the Justice Ministry half a year ago. These matters were quickly handled only after Li Teng-hui formulated a clear political policy during the KMT's senior meeting.

As for the problems of the original and early Taiwan residents, and the National Assembly's suggestion of creating a new post of administrator, the presidential palace assumed the main role in solving these problems, while Hao Po-tsun was as unmovable as a mountain. At present, Ch'iu Ch'in-yi's political declaration on the relationship between the two straits has caused an enthusiastic national discussion. So far Hao Po-tsun has not made any comments. He is now taking either a wait-and-see attitude, or waiting for the opportunity to attack. This situation has aroused the attention of many people. [passage omitted]

'Mainland Complex' Causes Identity Crisis

92CM0339B Taipei TZULI WANPAO in Chinese
23 May 92 p 3

[Article by Cheng Hsien-you, professor at the Biology Department of Culture University: "The Mainland Complex and Independence"]

[Text] As long as it is achieved in a peaceful and gradual manner, many people dream of or do not oppose not only "unifying with the mainland," but also of "unifying Asia," or even of a "world utopia." However, this does not mean that we should not have independence. On the contrary, we should be all the more "independent."

In terms of an individual, only an independent character can make one really capable of discussing cooperation, concluding contracts, forming alliances or marriage. Such is also the case with a nation. Without independent statehood, how can one get due respect and status at the negotiating table? How can one get international recognition and the protection of public opinion?

Discussing "Taiwan independence" does not mean that we do not have the "mainland complex." Neither does it mean that we do not want to have more intimate and closer relations with the mainland. In this respect, we may also say that we want even more to have a "world utopia." But in cases of being united with other states or one state such as in the case of the formation of the European Community or in the case of the union of the East and West Germany, each constituent entity (at least before the union) was always an independent and internationally recognized state.

To have "independent" statehood, it is necessary to identify with the territory (country) in which one lives.

National education should make the country's history, geography, biological environment, and culture the basic subjects of teaching. Political, economic and social systems and norms should be mainly founded on an indigenous basis. The name of the country, fundamental laws (constitution) and distribution of power and interests should be worked out on an indigenous basis and in accordance the requirements of the times.

For over four decades, we have been eating rice from Taiwan, and developing the economy and bringing up children with Taiwan's resources. Are we still unable to identify with "Taiwan?" Under the situation of being denied recognition by most countries in the world, why should one continue to hold on to the "banner of China" and to cling tightly to the "sceptre of legitimacy?" Domestically, nongovernmental organizations are prohibited from using the word "Taiwan" in their names. Internationally, instead of "Taiwan," "Taipei, China" is used. Children are privately encouraged to emigrate, and can "leave" easily. Does this "express one appreciation?"

One-Party Constitutional Revision Process Criticized
92CM0322A Taipei HSIN HSIN WEN [THE
JOURNALIST] in Chinese No 270, 16 May 92 pp 30-31

[Article by Lin Ying-chiu: "The Whole Story of the Dispute Between the Kuomintang (KMT) and the Democratic Progressive Party (DPP)"]

[Excerpts] On 4 May, because the KMT planned to discuss several unrelated constitutional revision issues together, the DPP firmly announced that it would formally quit the interim meeting of the National Assembly as it did not have any room for constitutional revision. The DPP was thus absent from the first constitutional revision according to popular will to be conducted in the last 40 years or so. [passage omitted]

Although the KMT remains the ruling party in Taiwan, and has a 75 percent absolute advantage in the National Assembly, in its eyes, it does not seem to see the will of the people supporting the DPP, nor does it hear their cries, complaints, and demands. Even the social rights to complain and demand that do not have the slightest shade of political sensitivity are no exception. This arbitrary and arrogant style of the KMT makes people think that it is deafened by the wall-piercing noise made by the fights among its members, if not blinded by the sulfuric gas of Mount Yangming.

Particularly, in the course of bargaining, negotiations, and consultations, the KMT's mentality that it will fall from the cliff once it makes a concession all the more makes outsiders feel that this party lacks tolerance, and is out of proportion as far as the number of seats it occupies in the National Assembly is concerned.

From the early days of the interim meeting of the National Assembly, the KMT and the DPP argued

endlessly over the issue of whether DPP's Chang Chun-hung should be given the post of deputy secretary general. [passage omitted] The KMT disputed over every detail with the DPP and viewed the latter as if it possessed 49 percent strength. The KMT thought that if it took a step back, it would go nowhere. The DPP was so irritated that it disrupted the meeting's agenda by boycotting and debating strongly.

When the DPP demanded a debate over important constitutional political issues, such as the ways of electing the president, it formerly hoped that the debate would be carried out on a one-to-one basis. However, the KMT insisted on its six-to-three formula. The former yielded and asked for the alternative of five-to-three formula; but the latter then hoped that there would be no limit on the number of individuals speaking within a certain time. Finally, the DPP was so pressured that it was unwilling to accept the offer. Taking advantage of this opportunity, the KMT "dropped it." It stated that as long as the DPP registered, it could give a statement at any time. As the two parties could not get along with each other, the negotiations broke down. To express its discontent and opposition to the KMT, the DPP passed in and out of the interim meeting of the National Assembly several times. Taking advantage of the DPP's absence, the KMT simply killed the constitutional revision topics put forth by parties not in office. It interpreted the rules of the game loosely and played the game of "hands up, hands down, once again" extremely happily with itself. There is not the slightest sincerity on the part of the KMT in respecting minority parties. It does not even have the democratic accomplishment to respect the opportunity for minority parties to speak.

With regard to the negotiations and consultations between the two parties, the DPP frequently asked to have a face-to-face dialogue with Li Teng-hui and Sung Chu-yu. This helped boost the KMT's position as an authoritative leader. The KMT, which considered itself superior to the DPP, was unwilling to respond to the latter's appeal of "party-to-party negotiations." It just let the You-liang group of its National Assembly party delegation consult with the DPP. Usually, the group could not rationally judge the suggestions raised by the DPP and always regarded the latter's tactics as a trick, and dared not make any promises lightly. Therefore, on every occasion, it would demand to take back the latter's suggestions for study and instructions. Thus the KMT frustrated the DPP's spirit. This being the case, the DPP was dissatisfied and asked to put negotiations on a higher level, but in vain. It then resorted to play senseless small tricks and fool the KMT.

For example, on the morning of 1 April, the DPP suddenly left their seats for two hours, leaving the KMT the victim of false alarm of "constitutional revision by one party." Again, on 29 April, taking the KMT by surprise, the DPP returned to the interim meeting of the National Assembly. When the KMT's National Assembly deputies expanded their greater power to the extent of "forgetting who they are," the DPP launched a

surprise attack on the Chungshan Mansion to "go up the mountain to capture the devils"; thus embarrassing the KMT's National Assembly deputies very much.

The final break-up point of the two parties was when Chairman Dao Hui-yu asked the ninth session of the First Examination Meeting, which was held in the afternoon of 4 May, if the last seven constitutional revision categories, which included 11 topics and had not been examined, should be examined together or not; this incident stimulated the DPP's determination to "return home." This was because the last seven major constitutional revision topics included the strong demands of DPP's ideology: "Territorial change cannot be made without a resolution determined by popular votes; and the referred territory covers Taiwan, Penghu, Chinmen, Matsu, and their affiliated islands," the "political party clause," the "financial and economic clause," the "environmental protection clause," the "clauses on nuclear waste, nuclear weapons, and nuclear power stations," "popular vote clause," and "clause on the defense budget not exceeding 20 percent of the central government's total budget in peace time." All this served as the only arena for the DPP after it returned to the National Assembly. When the DPP surely knew the KMT's intention to examine the topics together was to reduce the number and time of the DPP's speeches in an attempt to obstruct it from disseminating its political ideas on Taiwan independence, it realized that it had only one road to follow "better return home." [passage omitted]

After the DPP quit the National Assembly, six nonparty deputies took the initiative to consult with the KMT's National Assembly party delegation with regard to their different opinions on the "sun-setting clause" in the constitutional revision tabled by the KMT. Consequently, the KMT again forced the nonparty deputies to leave the National Assembly as it did the DPP. In the future, only 326 KMT National Assembly deputies, plus Huang Hung-tu, nonparty deputy, and Huang Chao-ten from the Democratic Socialist Party will attend the second-reading meeting of the National Assembly.

During the period of political tutelage of Chiang Kai-shek when there was a strong tint of the military running the country, people still understood the truth that "politics is the product of negotiation and compromise." However, today, in the period of constitutional government, Li Teng-hui and Sung Chu-yu, with a three-fourths absolute majority at hand, unexpectedly have the courage to disregard parties not in office. The KMT will be Taiwan's ruling party forever unless God protects us.

When Li Teng-hui would rather call on eight deputies of local tribes than meet high-level DPP leaders, his aides might forget: 25 percent of voters support the DPP, which is the "genuine popular vote" that is not bought, nor does it need organizing and mobilizing. This kind of popular will continue to increase, rather than decrease.

Experience of Opposition With KMT-Controlled TV
92CM0335A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 272, 30 May 92 pp 77-79

[Excerpt] [passage omitted] At the very mention of television media, the vast majority of non-Kuomintang politicians and members of groups with little power describe similar experiences. Legislator Chen Shui-pian, who has been elected by large margins in Taipei, says that during each election, "Television stations act as if I were not running." Kang Ning-hsiang, who served as a legislator for more than 10 years, says: "When television stations film us, it is always because they have to, and it's just like dipping the food you eat in a little soy sauce or sprinkling salt on it."

However, because of the gradual increase in the number of politicians from opposition parties within the Legislative Yuan, it has been increasingly difficult for television news to ignore their existence in their coverage. Chen Shui-pian points out, "I have spoken a great deal, addressed inquiries and have used quality and quantity to increase newsworthiness. The television stations can't refuse to broadcast every item, but if they want to leave out news, I can't do anything about it." Some time ago, a television reporter returned to the station and prepared three stories, which included Chen Shui-pian speaking five times. The television producer asked, "Why are these full of Chen Shui-pian talking?"

Chen Shui-pian, who has been elected a Taipei City councilman and has been sentenced to prison, began his experiences in dealing with television stations 20 years ago. Chen Shui-pian says, "When I first became a city councilman, Taiwan Television asked my thoughts on being elected. I also prepared the substance of the interview in advance. The parts that I thought were more important were not broadcast, but the less important parts were broadcast." Afterwards, Chen Shui-pian conveyed his reaction to the reporter who had interviewed him, but the reporter said that there was a shortage of time. For a while, Chen Shui-pian declared that from then on he would refuse to do any television interviews.

Democratic Progressive Party [DPP] legislator Hsieh Chang-ting says that the first time he was interviewed by a television station should have been while he was a city councilman, but he has forgotten the exact date and the particulars. Ye Chu-lan and Shih Ming-te have not been so "fortunate." They have never had a "first time"—have never once had the experience of being interviewed by a television station.

The exposure given to the name "Shih Ming-te" cannot remotely compare to that given to the photograph on Shih Ming-te's arrest order. After the Kaohsiung Incident, the Kuomintang searched everywhere for Shih Ming-te, on and off the island, in the mountains and at sea. Shih Ming-te says that at the time, the impression that Taiwan people had of him was entirely based on the mustachioed subversive that the television stations

made a point of aggressively publicizing. At the time, the three television stations broadcast a wanted commercial every few minutes. "At that time, I was the most famous person in all of Taiwan, and it still hasn't changed much." Moreover, Shih Ming-te was quite satisfied with the image of himself on television, because after all, as he says, few opposition members wear mustaches. Shih Ming-te also advises viewers to notice that he always appears on television wearing a smile.

Ye Chu-lan also feels very self-confident about her image on television. Before she entered the Legislative Yuan, Ye Chu-lan worked in an advertising agency, was well-known for her astuteness and competence, and was even named one of "the advertising world's three super-women." Friends who know her well all know that she is quite "middle-class," quite particular in her tastes and entirely unlike her nickname "nylon sister-in-law" (a homophone for sister-in-law Nanrong), just a piece of nylon fabric.

Ye Chu-lan seldom appears on television, which is to say, the television stations have never made a point of filming her. Once when legislators were opposing the voluntary school enrollment plan, Ye Chu-lan happened to get one second of air time. They were probably short on time, and the television station had no way to take it out of context, so what she said in one second was broadcast.

Chen Shui-pian remembers rather clearly that 10 years ago, when he was still a Taipei City councilman, after the interview when he was elected, he virtually never appeared on the television news. Chen Shui-pian says, "If television doesn't film you from the back, they do it from the side." But there was a period, probably within a two-week stretch, when Taiwan Television news showed Chen Shui-pian four times, addressing inquiries, and two of those had sound. Consequently, says Chen Shui-pian, "Li Hui-hui, who mainly covered the city council, was transferred, and because of this, anchorman Sheng Chu-ru was removed." This shows that they don't have many opportunities to appear, and fortunately voters don't have to rely on television to recognize them, otherwise they would probably all have lost their elections.

As for the "no face" approach that television stations use for opposition representatives, Hsieh Chang-ting and Ye Chu-lan have had similar experiences. Hsieh Chang-ting explains that the so-called "no face" approach means that the television stations use sound, but no image. When they show Councilman or Legislator A addressing an inquiry, the image of Representative B (or even more representatives) appears in the picture. Hsieh Chang-ting says that it seems as though the television stations have never liked his "face."

Hsieh Chang-ting says that he did have an opportunity to be on television when he was a city councilman, each time he went to court, and each time he was indicted. Whether it was 12 June or 19 May, as long as he ended

up in court, "the television stations would definitely film that pathetic look of mine!"

On this point, Shih Ming-te has had the most intense experience. All of the images created by television of the instigators of the Kaohsiung Incident are still effective to this day, not to mention while it was happening. When it was happening, Shih Ming-te was called "buck-headed and rat-eyed," an "evildoer," and "if you keep crying, Shih Ming-te will come!" It became the most effective word of warning that mother's used when lecturing their children. In fact, Shih Ming-te says with great feeling that he is basically a moderate person, and that now when he walks down the street, people often nod and greet him, as if to express their apologies for misunderstanding him in previous years.

Shih Ming-te has always felt very "contemptuous" of the three television stations for how they made a point of smearing him. He says that only by using this term can he convey his protest.

Hsieh Chang-ting has been in office for 11 years, and has been combatting the media for 11 years, which has long since taught him how to deal with their methods. While he was a city councilman, he was rarely interviewed, so he could not say anything about distortions; after he joined the Legislative Yuan, however, distortion was an everyday occurrence.

Hsieh Chang-ting says that the most serious instance was the time he inquired about whether Liang Su-rong's studying in Japan was real or fabricated. While Hsieh Chang-ting was being interviewed for television, he said, "The diploma is real, but the studying in Japan is fabricated." He didn't expect that when the television news was broadcast, the reporter would say, "Hsieh Chang-ting ultimately acknowledged that Liang Su-rong's studying in Japan was real." Because of this incident, Hsieh Chang-ting almost lost all credibility.

After that, Hsieh Chang-ting came up with a set of behavior to deal with the television stations' deliberate smears and distortions. He cited two principles: 1. Speak briefly, only say one sentence, so the television stations have no opportunity to quote out of context. 2. Never use qualifiers, because using a qualifier is like throwing yourself into the trap of the television news censors.

Hsieh Chang-ting says that soft-sensibility shows when "women, women" often seek him out and invite him to discuss family and marriage on their program. Hsieh Chang-ting thinks that it is very strange that these shows like to have him on to talk, since he doesn't qualify as a family man, and would feel very embarrassed to be on the show.

Hsieh Chang-ting was most satisfied with his image on screen when he conducted a television debate with Chang Hsiao-yen on "joining the United Nations." "That time, I had a little make-up on, and I looked very good. My ideal self looks like that."

Chen Shui-pian believes that distortion mostly happens when a lot is said, and there is no way to check how it was put together. Citing the example of Ho Chien-hai's clash with Chen Chang-wen, the former secretary-general of the Straits Foundation, Chen Shui-pian said, "What was broadcast on television was me saying, 'You're worthless!' But before that, Chen Chang-wen crossed his legs, wouldn't even look at me, and said something like, 'I am your constituent. Hold it right there.' But no one in the television audience knew that."

During last month's "19 April" demonstration organized by the DPP, when the DPP was conducting a sit-down protest on West Chunghsiao Road, Taiwan Television showed the governor of Pingtung County, a DPP member, "criticizing" the demonstration strategists. Su Chen-chang says, "If I say anything, I feel responsible." That day, just as Su Chen-chang was convening the supervisory meeting, a Taiwan Television reporter asked him what he thought of "19 April." Su Chen-chang knew the limits of television, so he said briefly: 1. Taking to the streets is the last resort for those without power to gain attention, and it should be tolerated. 2. It is a normal phenomenon in a democratic society for the police not to unnecessarily block their way. 3. The demonstration strategists should be careful because the accumulated inconvenience to the populace may lead them to reduce their support for the movement.

Consequently, anchorman Li Si-tuan said on the broadcast that day that Su Chen-chang said taking to the streets would annoy the populace. When Su Chen-chang's face was shown, the topic was Su Chen-chang's objection to the "19 April" activities, and the sequence and context of the above-mentioned interview was completely edited. Su Chen-chang wrote to request a correction, and Taiwan Television acknowledged that "there were inadequacies, but there was absolutely no malice," and said that there was also no way to make a correction on television.

Su Chen-chang, who served as a provincial legislator, says that when he was in the provincial legislature, "news on the provincial government that affected 16 million people rarely made it on television." Su Chen-chang, a DPP politician, also knows that his political stance will not make it on the television news. But his views on some economic problems are also frequently ignored. Easy-to-cover news is more likely to be shown, while there is simply no opportunity to be interviewed about more time-consuming news.

But on the other hand, television reporters and interviewees all believe that this sort of phenomenon is mainly attributable to the attitudes of television producers. Recently, because the three principles of National Security Law put forth by the DPP were passed by the Legislative Yuan, when the China Television News Forum was preparing a report, it naturally couldn't leave out Hsieh Chang-ting's views, but there were differences of opinion among the producers.

Over a long period of contact, these politicians who are considered persona non grata by the television stations have found rather special ways to deal with television reporters. Before the filming begins, television reporters usually exchange views with their interviewees, and the reporter inevitably "hints" to the interviewee regarding which topics are more likely to be broadcast, and sometimes they will explore the interviewee's approach.

From their first experience until today, opportunities for opposition members to be on television have increased, but Chen Shui-pian points out that "normalization" is "an impossibility."

'Queer' Behavior, Language of National Assemblymen

92CM0338A Taiwan HSIN HSIN WEN [THE JOURNALIST] in Chinese No 273, 6 Jun 92 p 25

[Article: "No Objection to Congratulation and Censures, a Great Deal of Queer Behavior and Language"]

[Text] On 27 May, the Kuomintang [KMT] completed the third reading of the revised constitution, and single-handedly created a "constitutional monster" called the National Assembly, thus causing great panic among all circles.

However, reviewing the provisional meeting of the National Assembly in the past two months, besides the congratulatory telegram to Li Teng-hui on the second anniversary of his presidency, the meeting passed unanimously "without objection" only the bill censuring three legislators—Li Sheng-feng, Yu Mu-ming, and Chow Chuan. Among the provisional meetings of the Second National Assembly, this may be called a wonder.

When the feelings inside the National Assembly were so vehement as to want to restrain the Legislative Yuan, and to shorten the legislator's term to two years, one single sentence from one person at the Legislative Yuan was sufficient to paralyze the agenda at the National Assembly continuously for one or two days. So far, the general public may not know what the "eight items of the party" are, and can only remember the three expressions "garbage and roaches," "senile dementia and mad dogs," "guts, no guts"; ironically these three expressions came out of the mouths of some Legislative Yuan members. If later on the Legislative Yuan and the National Assembly unfortunately become two congresses, it will be very clear who has calm wit, and who is panickily defensive.

Since the election of the representatives of the Second National Assembly, all kinds of measures "to insist on special privileges" and "to insist on compensation" came out in profusion, thus saving the Legislative Yuan from its notoriety. The following is a summary of the innumerable queer sayings from this provisional meeting of the National Assembly:

My attendance rate is low because I am not paid to attend meetings in Taipei. I have a wife and kids to feed at home, I have to take care of my business.

I was late to the meeting, because unlike the members of the Legislative Yuan I do not have the privilege of flying first class, and could only fly in business class.

If national representatives are unsalaried positions, then people's representatives at all levels should be unsalaried positions also.

National representatives cannot expand authority, and therefore cannot lengthen the term of members of the Legislative Yuan from three years to four years.

If the term of national representative is reduced from six years to four years, the term of Legislative Yuan members should be reduced "in the same proportion" by one-third, from three years to two years.

Representatives of the Second National Assembly are the newest people's representatives; therefore the National Assembly is more authoritative than the conference of supreme court judges in revising the constitution.

A five-power constitution is of course better than a three-power constitution, since it has two more powers.

The simplified name of the National Assembly is "the Congress," therefore there can be only one congress.

My son does not dare tell his schoolmates: "My father is a national representative," because he has heard a Legislative Yuan member say that national representatives are garbage, are interested only in privilege and money, and have AIDS.

In addition, national representatives kept saying that they wanted to make the National Assembly a permanent organization with a chairman and a vice-chairman. At present, if one makes a broad scan, one finds that the most senior person who has the greatest chance of becoming the "chairman" is Chen Chungkuang, then queer behavior and language would occur all the time. First it was hinted that he had "senile dementia," then in striking back he called other people "mad dogs"; after that, he suddenly discovered "there are traitors among the KMT Central Committee members." Later, after watching the movie "The East Is Invincible" in the lounge for male representatives in the Chungshan building, he went so far as to take a meditation position right in the middle of the sacred hall of the National Assembly, with Master Ming-kuang giving guidance by his side ... If indeed we have such a chairman of the National Assembly who, being elected by the same National Assembly, has the same popular basis as the President of the Republic, it would be the greatest farce in history in the world.

Cold Response To Revise Current Electoral System

92CM0324A Hong Kong CHIU-SHIH NIEN-TAI [THE NINETIES] in Chinese No 268, 1 May 92 pp 42-43

[Article by He Li (0149 4539): "Discussions on the Electoral System: Are Hong Kong People Fruitlessly Exerting Themselves?"]

[Text] Last year's Legislative Council [Legco] elections in Hong Kong were done on a grand and spectacular scale. But current discussions on the electoral system reflect a certain coldness and indifference. This is understandable, as at election time each of the parties and factions jumped into the fray, competing with one another, something very much worth seeing, but discussion of the electoral system was lacking to a great degree. However, there were some factors that made people feel that this type of discussion was not worthwhile, first these were discussions on conducting the 1995 elections, and could only in technical terms raise this or that small improvement, but could in no way structurally shake the decided upon framework for the 1995 elections. Second, there was the feeling that there was no way such discussions would produce any results, and finally, as to how the 1995 elections will be held, the Sino-British Joint Liaison Group will discuss it and have the final say.

A debate on the electoral system is not the same as a debate on the political system. Discussion and research on the political system involves the structure of the political system, and controversial issues such as the organization of the legislative organ, and how the various types of seats will be allotted. For example, how many will be directly elected, how many will be from functional groups, and how the other seats will be allotted. As for issues involved in the discussion and study of the electoral system, they involve how the election is to be arranged. For example, how many electoral districts will be involved in the directly elected seats, how many seats will each district have, how the electoral districts will be carved out, what type of balloting method will be chosen, and how the functional group elections will be arranged (for example, which groups will get one association one vote, and which will get one person one vote), etc. Conversely, discussion and research on the electoral system basically involves the technical details of elections.

When it comes to this type of discussion of the electoral system, on the Hong Kong government side the major player is the Constitutional Affairs Section, and the Legco also in January of this year established a committee responsible for publicizing discussions on electoral affairs, which then started to seek opinions. The Constitutional Affairs Section so far has exchanged a fair number of documents with the Legco committee, all related to the technical details of electoral affairs. The subjects of the documents are: How to raise the level of voter registration (at present it stands at 52 percent, and among the 3.7 million eligible voters, only 1.9 million

are registered); how to bring voter registration information (primarily the electoral district people live in) in line with the most recent situation; standards for dividing up electoral districts (among the major criteria are population, with the current Legco divided among nine electoral districts, averaging more than 600,000 people per district); whether or not to set up a committee to divide up the electoral districts and supervise the administrative arrangements for the election; and the balloting system for direct elections.

Among these subjects, the one that has received more attention is the balloting system for direct elections. This involves various types of balloting systems such as single seat electoral districts, two seat electoral districts and multiple-seat electoral districts, and it has been proposed that a relatively simple system such as the single seat or two seat electoral district system be chosen (the present approach is a two seat system, with each vote able to elect two people, called for short the dual seat dual vote system).

Though the scope of this discussion also includes reform of the makeup of the 1995 Legco members, there has been very little discussion on this issue.

Up to now, the discussion and suggestions regarding the electoral system among various circles has not been an enthusiastic affair because the opinions that have been raised often have some organizational or other background and clearly lean toward these interests.

When it comes to the issue of arranging direct elections, many believe in preserving the current dual seat electoral system, or choosing a single seat electoral district system. Democratic groups such as the Hong Kong Democratic Alliance have also recommended this approach. As for those who lost in last year's direct elections, particularly those organizations loyal to Beijing, they believe that with the dual seat dual vote system it is easy to produce the "linking vote effect," in which two candidates from the same political group occupy the two seats from the same electoral district, and hence they propose the multiple seat electoral district method. There is the left-wing Hong Kong Kowloon Trade Union Federation, which has a four seat two vote approach (each electoral district has four seats, each vote can only select two people). The pro-Beijing New Hong Kong Alliance suggests that all of Hong Kong be divided into two electoral districts, and each vote be for only one person, but the group has not yet decided on detailed methods for this approach.

As for the seats of functional groups, the point of view of the democratic groups is that the functional group system violates the principle that elections should be universal and equal. The Hong Kong Democratic Alliance proposes dividing the functional groups according to profession, and to give expression to equality, proposes allowing all voters, in addition to the one vote direct election to be able to cast a vote in their professional circles. However, a number of other groups are

ving to obtain functional seats and have launched lobbying efforts. For example, the insurance profession is demanding the establishment of another seat, and fishermen, garment vendors, animal husbandry workers, and educational circles not among the 10 seats are also demanding to obtain a seat.

As for the composition of the 1995 Legco membership, there are not many opinions being expressed believing that there should be a change or that change is possible. The proposals of the Hong Kong Democratic Alliance, when faced with this limitation, also assume that the 1995 framework cannot be altered, there will only be 20 directly elected seats, the functional group seats will still exist, and that these types of limitations are enshrined in the framework of the Basic Law.

According to the Basic Law, which gives Beijing the final say, in 1997, of the 60 seats in Hong Kong's legislative body, directly elected seats will amount to only 20, 30 will go to the functional groups, and the other 10 will be chosen by the 800 person "Election Committee" (also called the "General Election Group"), and by the year 2003 the number of directly elected seats will only reach 30. This framework limits the 1995 political system. Britain early on agreed with Beijing's "linkage" position. "Linkage" means that the 1995 Legco membership must be produced in accordance with the relevant stipulations of the Basic Law, and then can sit on a "direct train," certain in their belief of being the members of the first Hong Kong Special Administrative Region (SAR) Legco in 1997.

Since the provisions of the Basic Law were decided on, on the issue of the pre-1997 Hong Kong political system, what Beijing has time and again stressed is that Hong Kong must maintain administrative guidance, and the 1995 Legco must be constituted in accordance with the stipulations of the Basic Law. After last year's elections, the constitution of Hong Kong's Legco was 18 directly elected seats, 21 functional group seats, 17 appointed seats, and another three official seats and one appointed deputy chairman. In addition, it should be noted that in 1995, the number of directly elected seats will only increase by two, and the functional groups could increase by nine seats; how the remaining 10 seats are allocated will certainly be influenced by Beijing's wishes. This is the reason some groups are diligently striving to become functional groups so they can demand and obtain the "allotted" seats.

Though directly elected seats will make up only one-third of the 1995 Legco's total seats, due to the progress made by the democratic groups in last year's elections, all the pro-Beijing forces have been tarred. To prevent democratic groups from again "monopolizing" the directly elected seats in 1995, pro-Beijing groups have proposed the multiple seat position, and anticipate that the Chinese side will inevitably also increase pressure.

Finally, Beijing's State Council Hong Kong and Macao Affairs Office Director Lu Ping has begun to speak out. During an interview with a Hong Kong television station he stated: "Issues pertaining to Hong Kong's 1995 Legco elections will be discussed in the Sino-British Joint Liaison Group, and China has in fact done research on this issue, and will later listen to the opinions of all sides in Hong Kong and will exchange views with the British." It is said that Beijing has already taken the first step and proposed that the issue of the 1995 Legco elections be placed on the agenda of the Sino-British Joint Liaison Group. At the same time, Lu Ping also noted that the 1995 Legco elections, if they are in accordance with the stipulations of the Basic Law, could "lead directly" to 1997. There will be 20 elected seats in 1997, and if the British increased the number of directly elected seats in 1995, this could not be linked with the Basic Law, and could not "lead directly" to 1997. As for the scope of the research on the Chinese side, it includes the dividing of electoral districts, the determining the scope of functional groups, and the constitution of the "Election Committee" that will select 10 members of the legislative body.

In addition, Beijing's XINHUA News Agency in Hong Kong already has a number of figures involved outside of official contacts, who are making quiet inquiries into the feasibility of reforming the direct elections to have each electoral district have four seats, and each vote elect two persons. (It is commonly believed that the approach being pondered by Beijing is to have each electoral district have four seats, even if the democratic groups win two of these, another political group will obtain one of the other two and a pro-Beijing figure could still occupy one of the seats). For this reason, discussion of the electoral system could very well become a futile waste of mental effort for Hong Kong people, and finally there have also been decisions from both the Chinese and British sides to close the door that are based on the wishes of Beijing.

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